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THE  
QUARTERLY JOURNAL  
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ECONOMICS

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NOVEMBER, 1922

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THE TARIFF ACT OF 1922

SUMMARY

The tariff act of 1913 inconclusive as an experiment, 2. — Two factors important in 1922: war feeling, and demand for protection from the agricultural states, 3. — History of legislation. 6. — Concessions to the agricultural element, in duties and in the free list, 7. — Wool and sugar, 9. — Some extraordinarily high duties on manufactures, 11. — Dyestuffs, 14. — Administrative provisions and American valuation, 17. — The President's discretionary powers, 19. — How serviceable did the Tariff Commission prove? 22. — General administrative provisions, 24. — Conclusion, 26.

THE tariff act of 1913 was in force nine years. A glance at the dates of the acts of similar scope passed during the last forty years — 1883, 1890, 1894, 1897, 1909, 1913 — shows that one only, that of 1897 had a longer life. The application of moderate duties for nearly a decade, from 1913 to 1922, might have been expected to yield useful experience on some at least of the disputed points of the controversy.

True, it is only on a limited range of questions that helpful conclusions could reasonably be looked for. No trained observer would expect that experience could contribute much toward settling the fundamental question — the effect of such legislation on the general welfare through the greater or less output of material goods. We have here the familiar case of the inter-

mingling of conflicting factors, of confused currents and cross currents. There is no way of disentangling the effects of a change in tariff legislation from those of the many other influences.

It might be otherwise, however, with one important phase of the controversy. What is the effect of a moderation of duties on the protected industries themselves? Would wool-growing, for example, quite disappear from the United States under free wool? Would foreign competition practically sweep away the domestic woolen manufacture under a simple duty of 35 per cent on woolen goods? Would sugar continue to be made at all in Louisiana and the states producing beet sugar if imports were free of duty? In all these cases, and in many more, the protectionists predicted that disaster would ensue from such reductions as were made in the act of 1913. The revisionists, on the other hand, maintained that the rates of 1913, on manufactured goods at all events, were high enough to be "competitive"; that they were such as to enable these protected industries to hold their own, even tho importations might be somewhat larger and competition from abroad somewhat sharper. For myself I have long been of the opinion that the extent to which most of the manufacturing industries depend on high protection is habitually exaggerated, and that the industrial readjustment consequent on legislation like that of 1913 would not be far reaching. Certainly the scientific observer would watch the outcome with no little curiosity; and a decade of experience under normal conditions would go far toward supplying an answer.

But, alas! as everyone knows, the years during which the tariff act of 1913 was in force were as far from normal as could possibly be imagined. The war turned everything topsy-turvy. To American manufacturing



industries it served as protection more effective than any tariff legislation could possibly be. Not only was foreign importation of competing products completely eliminated, but American goods such as previously had been made at home only under the shelter of high duties were exported to neutral markets. And the years immediately following the war were no less abnormal. We are not a whit wiser than before concerning the extent to which the manufacturing industries, great and small, depend for their existence on the unflinching maintenance of high protection. Consequently when the election of 1920 brought the Republicans into power again and made it certain that the tariff policy of 1913 would be reversed, the debates, so far as concerns this point, were carried on as much in the air as ever. The protectionists predicted ruin unless high duties were restored, but their predictions rested on no more secure basis than in 1913. Those who believed that a considerable reduction of duties could be made without causing an industrial overturn could only argue on the same lines of general reasoning as before. The experiment of 1913 was quite inconclusive.

There was not only this negative element in the tariff situation of 1921-22. Some positive factors were present which had not affected any of the previous revisions. Two had profound influence. The feeling for national self-sufficiency was intensified by the war; and the representatives of the agricultural West supported high protection with a vehemence never shown before.

The first of these is easy to understand. It showed itself in all countries after the war and everywhere served to strengthen and enlarge protection. Everywhere this nationalist feeling has intermingled confusedly with the cruder and more familiar phases of protectionism. The experiences of the struggle might

easily lead a person who was without prejudice for or against free trade to accede to measures for securing, regardless of cost, a domestic supply of articles indispensable in war. The ordinary protectionist ignores or denies that the stimulation of domestic supply involves any increase of cost at all or any economic drawback whatever. He simply finds in these experiences a further argument for bolstering up every branch of domestic industry. The trend toward protection, strong enough before the war, became even more strong after its close.

The second factor, the attitude of our western agricultural regions, is more distinctly peculiar to the United States. Like the first it is an aftermath of the war; but in this case the influences at work were quite different from those of military fervor. The impelling force was the severe decline in prices from which the farmers suffered in 1920-21. They were hardest hit by the sharp industrial revulsion which began in the latter part of 1920. The prices of wheat, corn, meats, cotton, suddenly were cut to one-half, even to one-third of the war figures. The farmers were as helplessly ignorant concerning the cause of this decline as they had been concerning the previous rise. They clamored vociferously for a remedy. Their political representatives, hardly less at sea than the rank and file and eager to ferret out some sort of response to their constituents, turned to the tariff. All the popular debates of the last generation had inculcated the belief that the mere imposing of a duty served at once to benefit the domestic producer. In a time of distress this notion of the wonder-working effect of an import duty naturally led the leaders to propose, and the rank and file to welcome, immediate and drastic tariff changes. Early in the extra session of Congress (May 27, 1921), the "Emergency"

act imposed high duties upon wheat, corn, meat, wool, sugar. It was originally passed with a provision that the duties should be in force for six months only, but was reenacted step by step and remained in effect until the final passage of the act of 1922. As a means of meeting the emergency of the time it was hardly more than an amiable gesture. The prices of the several products continued to decline; hardly a better proof could be found of the failure of tariff duties to serve as a remedy of immediate efficacy.<sup>1</sup>

But this Emergency act, negligible tho it was in its immediate effects, was of large consequence on the political situation and on the eventual character of the permanent tariff. By it the representatives of the agricultural states had committed themselves to a policy of high and even ruthless protection. They had got from the other states, and especially from the manufacturing sections, all they wanted — *carte blanche* to fix as they pleased the duties on their products. When it came to the duties on manufactured articles, they could not easily oppose, as they had done in 1909, rates which seemed burdensome on the consumers. Thus no moderating influence was of avail in the 67th Congress. The Democrats were hopelessly outnumbered, and even in their slender minority not a few were committed by having previously bowed to the agricultural clamor. Among the Republicans a word of protest was heard now and then, but was hardly listened to. That party, tho at bottom split into factions, came to agreement on the tariff more completely than on any previous measure of the same character, with the possible exception of 1909.

The outcome was a tariff with rates higher than any in the long series of protective measures of the whole

1. See a report of the Tariff Commission on Operation of Rates in the Emergency Tariff Act, Senate Document No. 224, 67 Cong., 2d Session.

period. It went beyond the acts of 1890, 1897, 1909. A return to high protection was inevitable after the election in 1920; but the special conditions of 1921-22 led to an extreme which few had thought possible.

Nor was this extreme application of protection due to haste or paroxysm. The act of 1922 had a legislative career unexampled for length. The Ways and Means committee of the House began hearings on the tariff as early as January, 1921; that is, in the old Congress, in anticipation of the coming change of administration. Its bill, further elaborated by the same committee of the new Congress, was introduced in the House on June 29, and passed by that body July 21. It was under discussion in the Senate for more than a year. The Finance committee of the Senate did not submit it to that body until April, 1922; it was passed by the Senate August 19. After the usual compromises in a Conference committee of the two Houses, it finally became law on September 19.

The Senate in most cases raised duties above the figures proposed by the House. This more extreme policy was due in part to the greater influence exercised by the states of the Far West, whose representation, small in the House, was large in the Senate. Hence it came to the fore most pronouncedly in the case of the agricultural commodities. In good part it was due also to the tradition of mutual concession and mutual support which senatorial courtesy has engendered. The senators, always in the habit of acceding to the wishes of their colleagues in what concerns the confirmation of presidential appointments, naturally yield on other matters also, and not least on this one of tariff rates on the products of their several states.

The details of the bill were settled, as usual in cases of disputed and complicated legislation, by the Conference

committee of the two Houses. That committee of six members worked with feverish haste for about a fortnight, and submitted to the two bodies the bill in what was of necessity its final form. At this last stage of the legislative procedure no careful scrutiny is possible of the details of the compromises and readjustments made by a Conference committee. Barring an occasional disagreement on some matter of outstanding moment, the measure as elaborated in the committee must be accepted; the only alternative is to forego action once for all. A more vicious system for reaching a settlement could not well be imagined. The evil is an old one, rooted deep in our political system; nor is a remedy in sight.

From the mass of detail I will select for comment certain provisions which are significant of the character of the new measure. I shall omit entirely, however, consideration of some of the most important schedules, namely those referring to textile fabrics. They are considered in detail by the competent hand of Dr. A. H. Cole elsewhere in this issue.

On agricultural products we find a list of duties on any and every sort of item, of the kind familiar in our tariff history. Most of them are as devoid of economic significance in their permanent form as they were in the temporary form of the Emergency Tariff Act. Wheat is dutiable at 30 cents a bushel, as compared with a rate of 25 cents in the Tariff Act of 1909; rye 15 cents (10 cents in 1909). Corn remains at 15 cents a bushel. Beef bears a duty of 3 cents a pound, lamb of 4 cents a pound; the rates of 1909 were 1½ and 2 cents. There follows the usual list of petty or innocuous duties, from eggs to reindeer meat, peanuts to acorns. California, in which the protectionist sentiment has become curiously ve-

hement and which it was perhaps thought desirous to placate on political grounds, is soothed by duties — either as high as in 1909 or higher — on lemons, nuts, prunes, and so on.

Still further concessions to the farmers appear in the free list. Agricultural implements are admitted free, such as plows, harrows, headers, reapers, cotton gins, and what not; even wagons and carts are not dutiable. Essentially the same provision had been in the act of 1913. It is another empty gesture. These articles are made in almost every case more cheaply in the United States than abroad; none except fragmentary imports come in; it makes no difference whether these odds and ends are free or dutiable. Binder twine too remains free: still another empty gesture. Potash also was left free at the last moment, the Conference committee recommendation for a duty being overthrown in the House. Here the supply must come mainly by importation, and a duty would mean a real tax. But its largest use is for fertilizer; and tho the industry was a war baby, it is not allowed to get sustenance at the expense of the farmers.

The aggregate effect of all the duties on agricultural products, both as regards their advantage to the agricultural producers and their burden on consumers, is not considerable. It would be going too far to say that they are quite without effect. The duty on wheat, for example, while of no influence upon the general trend of wheat prices, is likely to be of some significance in the spring wheat regions of the Northwest in seasons when the crop is scanty. In such seasons Canadian wheat, if free of duty, would sensibly mitigate a rise in the price of the hard grain which millers must have for certain grades of flour. Similarly, California lemons will sell for somewhat more, and the consumers will have to pay somewhat more, because of the obstacle which the duty

places on the Sicilian article. But even when all such items are added up, the total comes to little. The significance of these duties, to repeat, is not so much economic as political.

With two important articles in the agricultural schedule the case is different. The duties on wool and on sugar are of large consequence. The details of the wool duty — more important than most of the details in the tariff — are considered elsewhere in these pages by Dr. Cole. I will only state once more my conviction that there is no sound ground for it. Even the greatest stretch of the war argument yields no reasonable basis for a duty on wool. Under free wool enough would be grown in the United States to enable our population to get on without serious strain even if a war should cut off for the time being the imported supply. The United States need fear no such troubles as Germany, caught without a wool supply of her own, had to face in 1914-18. On economic grounds, to repeat, nothing is to be said in favor of this application of the protective policy.

With sugar the case is similar. Here also the characteristic effects of a protective duty appear. The consumers pay the tax on the whole supply; the treasury gets as revenue only half of what is paid by the consumers; the other half goes to bolster up the protected producers. Thirty years ago the domestic supply of sugar was confined to Louisiana, and the total output there was insignificant as compared with the imports. The sugar duty then was primarily for revenue. In the intervening period the beet sugar production of the West has grown enormously; and Hawaii, and Porto Rico, and the Philippines have also been brought within the protected circle. The extraordinary fall in the price of sugar in 1920-21, an inevitable reaction after the even more extraordinary rise of 1919-20,

caused the protected interests to clamor for aid. The influence of the Far West here also was most potent. The "full" duty is now made 2.206 cents, as against  $1\frac{1}{4}$  in the act of 1909 and  $1\frac{1}{4}$  under the act of 1913. The effective duty, it will be remembered, is that upon Cuban sugar, which is entitled to a reduction of 20 per cent under our reciprocity arrangement; imports of late have been confined to Cuba, and are likely to be so confined in the future. The duty on Cuban sugar was exactly one cent a pound under the act of 1913; it now becomes 1.7648 cents. This is practically the rate fixed by the Senate; the House rates had been a little lower. Sugar and wool nowadays present the issue between free trade and protection clearly and typically.

On iron and steel there is a resumption of some duties which had been omitted in the Act of 1912. Pig iron pays 75 cents a ton; on steel rails, that old bone of contention, the rate is one cent a pound, or \$2.24 per ton. These are puny figures compared to those of a generation ago. Iron ore continues to be admitted free. The whole schedule has ceased to be of much consequence in the protective controversy, at least so far as concerns the heavier and half-manufactured forms of iron and steel. Formerly these stood in the forefront of the protective controversy — a place now taken by sugar, wool, and the textiles. Some ferrous specialties, such as ferro-manganese, molybdenum, tungsten, caused debate, especially with reference to their use in war, and with the usual utilization of the war argument by the domestic purchasers and their legislative sponsors. The economic effects of these changes in duty cannot be great, tho some particular interests will profit largely from them.

The general accentuation of protectionist feeling led to some advances of duty which cannot be said to have



even a remote connection with preparedness for war and which indicate the extremes to which the policy was carried. Chinaware goes up to 60 per cent when plain white; when painted or ornamented to the unprecedented figure of 70 per cent. "Jewelry commonly and commercially so known"—that is, cheap imitation jewelry—and a long list of like metal articles, such as buckles, buttons, powder-cases—and even vanity cases!—become dutiable at 80 per cent. Toys too, which the dreadful Germans had supplied so largely under pre-war conditions, and which the enterprising Japanese had supplied in very poor quality during the war, are now taxed at inordinate rates in order to bolster up some domestic manufacturers who had begun operations under the abnormal conditions. This war baby gets a rate of 70 per cent. It is somewhat amusing that dice, which are mentioned in close proximity to toys, are dutiable at only 50 per cent. Cotton gloves are also subjected to very high duties. It will be remembered that the manufacturers of this article had maneuvered successfully for high duties in 1909; now they get duties even higher. It is provided that the duty, which is another of the combined type (*ad valorem* and specific) shall not exceed 75 per cent *ad valorem*; a legislative confession that this rate is likely to be reached and is not regarded as excessive. The English manufacturers, it may be noted, also have asked and obtained protection against the German makers of this article. No military or political ground can be imagined for refusing to accept a supply even from the Germans, if, as seems to be the case, they can make it cheaper and better. Lace window curtains also have combined specific and *ad valorem* duties, which in no case are to be less than 60 per cent. Laces in general pay 90 per cent.<sup>2</sup> I know of

2. Some curious episodes leading up to this duty are explained in Dr. Cole's article.

only one case in our entire tariff history in which an ad valorem duty as high as this has been imposed — the 100 per cent rate on brandies and spirits in the revenue tariff of 1846, which obviously was of quite a different character. Combined specific and ad valorem duties in later protective tariffs not infrequently brought an effective total as high or even higher; but it was veiled by the specific part of the combination, as is the case with similar provisions in the present tariff. A straight protective ad valorem tax of 90 per cent is unexampled. It is quite unblushing protection.

Hardly less overt are certain inordinate duties which, tho in form of the combined ad valorem and specific type, in fact rest entirely on a value basis. Thus pocketknives, if valued at 40 cents a dozen or less, pay one cent *each* and in addition 50 per cent ad valorem; if valued between 40 cents and 50 cents a dozen, 5 cents *each* plus 50 per cent ad valorem; and so on. I put "each" in italics because a thin veil is thrown over the procedure — an indication of an uneasy conscience? — by fixing the valuation points according to the dozen, but the duties according to the piece. Figuring both in the same way (by the dozen) we get the following results:

PENKNIVES, POCKETKNIVES, AND THE LIKE

	Duty	Duty reduced to ad valorem terms	
		Max.	Min.
Value up to 40 cents doz.	12 cts. doz. + 50%	...	80%
" 40 @ 50 cents doz.	60 " " + 50%	200%	170
" \$ .50 @ \$1.25 doz.	\$1.32 " + 55%	319	160
" \$1.25 @ \$3.00 doz.	\$2.16 " + 55%	228	127
" \$3.00 @ \$6.00 doz.	\$3.00 " + 55%	150	100
Over \$6.00 doz.	\$4.20 " + 55%	125	...

The same method is applied to clippers, razors, guns and rifles; and in all these cases the duties, when reduced to a single ad valorem rate, are extremely high, ranging from 75 per cent to over 400 per cent.

No marked changes are made in the free list, notwithstanding endeavors in that direction in one or the other of the two Houses. Cotton of all kinds finally remains free, altho the Senate had put a duty on long staple cotton, of which some slight production is now undertaken in the irrigated region of Arizona. Hides also remain free, after long and acrimonious debate. The agricultural representatives were finally forced to accede to this, as an offset to their insistence for keeping boots and shoes on the free list, and leather as well. Coal remains free, with a provision (aimed at Canada) by which, if any country imposes a duty upon United States coal, the same duty is to be levied upon coal when coming from that country. Books in foreign languages had been made dutiable by the House, but are left free, as are all books in any language if imported by colleges and educational institutions for their own use. The friendliness to education did not avail, however, to retain on the free list scientific and laboratory apparatus imported by colleges and like institutions; in all cases this must hereafter pay a duty of 40 per cent. Similarly, glass instruments for chemical, pathological and pharmaceutical use are no longer free for hospitals and educational institutions, as they had been before; they must pay 65 per cent. Bread remains on the free list, a quite innocuous provision so far as the economic effect is concerned, and a characteristic sop to sentimentality.

Among the most hotly debated paragraphs were those fixing the duties on coal tar products and dyestuffs.

They were closely connected with the administrative provisions of the act, to which further reference will presently be made. The history of this set of duties makes a long story, and the economic situation is highly complicated. Only a brief sketch is possible here.

The war argument was used to the limit. Before 1914 the supply of dyestuffs, the most important of the coal tar products, came almost exclusively from Germany. During the war there had been great shortage, speculation, advances in prices, a hothouse domestic industry. At its close the domestic producers were dismayed, and urged their case before Congress and the public with great insistence. On the other hand the circumstance that there were large-scale combinations in the industry and that the unpopular Dupont concern was among the most important producers, roused suspicion and some hostility.

Regarded from the strictly economic point of view the industry does not seem to be adapted to American ways. In our technical parlance, it lacks a comparative advantage. Its processes are painfully detailed and elaborate, in which highly trained and highly paid labor is applied slowly and carefully to a variety of products. Each one of these products is turned out in small amounts; a possible exception is synthetic indigo, of which there is something like mass production. In the main it is adapted to the German industrial ways and traditions: exact applied science; patient experimenting; a technical staff and its trained technical assistants, to be had at comparatively low salaries and wages; large-scale operations but not mass production. Some bad things have been said of the tricks of the German dyestuffs producers and merchants, and of the unscrupulousness of their competition. Apparently much of this was true, but hardly more true than of the same

industry elsewhere; the business seems to lend itself to the worst features of the competitive system. The United States had not failed before the war to develop some chemical industries without high protection, but these were of a different type from the higher grades of coal tar products. Here as in other directions the successful American industries are those turning out great quantities of a single product by large-scale methods.<sup>3</sup> My impression is that not lack of aptitude for chemical industries as such, not great scarcity of trained chemists or lack of ability on their part, but the character of the dyestuffs part of the industry mainly explains the pre-war situation. As a matter of the international division of labor, the people of the United States probably would do well to turn to other things in which they work to better advantage, and get their dyestuffs from Germany. And — to go on with the purely economic aspects of the case — the war stoppage of supply raises the old question whether it is worth while to restrict the advantages of the international division of labor because of a possibility of its sudden disruption.

But quite a different phase of the war argument was urged in this case. The cool economic considerations, not of a sort to receive attention under any circumstances from the dominant party, were quite disregarded because of the stress laid on the chemical industries, and especially on the manufacture of coal tar products, for the direct service of war. The same plant can be used for making dyestuffs and the like in time of peace, for explosives and for poison gas when war comes. The line of reasoning is similar to that applied in favor of subsidizing a merchant marine: the ships can be used for the ordinary purposes of transportation during peace and can serve as an auxiliary navy or transport system in

3. See an instructive article by Mr. L. H. Baekeland, a chemist distinguished in the industrial application of his subject, in *Harper's Magazine*, April, 1917.

time of war. The plea is more dramatically effective as regards the coal tar products: be prepared to make your own explosives and poison gas! It was pushed to the hilt; and in this case once more the general protectionist atmosphere caused it to be welcomed, with little endeavor to ascertain just how far the military needs went, whether each and every kind of coal tar product had to be bolstered up at home in order to meet these needs.

On the other hand domestic producers were so uncertain of their own position — so impossible was it to say just how much they had to fear from their dreaded German competitors — that they urged at first a complete prohibition, at least for a couple of years. In fact a virtual prohibition had existed since the close of the war through certain administrative regulations, and had been sanctioned by a temporary act of Congress. The proposal for the so-called embargo, however, proved unpopular, and tho put in the bill as presented by the Ways and Means committee to the House, was struck out by the House itself. After long debates in the Senate, and with no little vacillation it finally was dropped from the act itself. In its place came some extremely high duties, and some general administrative provisions which had no logical connection with the coal tar products themselves but which nevertheless were expected or hoped to be applied to them.

The new rates of duty are extremely high. In 1916, when the war shortage of dyestuffs roused attention, duties had been imposed upon dyestuffs of 30 per cent ad valorem plus 5 cents per pound. In the act of 1922 these rates become 40 per cent ad valorem (55 per cent until 1924) plus 7 cents per pound on the intermediate products and 45 per cent ad valorem (60 per cent until 1924) plus 7 cents per pound on the finished coal tar

dyes. The combination of specific and ad valorem duties is used, as it has been so often in the protective acts of recent years, to make sure that both the cheaper and the dearer forms shall be saddled with an effective high duty. Much more important is the provision that these ad valorem rates shall be assessed, not under the ordinary procedure, but with "American valuation"; not on the basis of foreign market value, but on that of the selling price in the United States of a similar article of domestic production. Of the controversy that centered about American valuation in general more will be said presently. It suffices here to point out that the effective duty is made very much higher by its application, and that this special treatment is made obligatory for the coal tar products, and for them only. Alone in the act they are thus singled out. There are further provisions for the proper labeling and description of these articles, and (elsewhere in the act) for the application of special restrictions for the prevention of the "unfair competition"; provisions which are entirely proper and should serve to meet a real need of combating unscrupulous competition. The rates themselves, to repeat, are extremely high. Both the industrial and the military conditions are so extraordinarily complex as to render the problem quite the most difficult I have encountered in the whole history of tariff legislation. But it is certain that the military excitement caused the protective policy to be applied more rigorously than would have been the case if these two factors had not combined, and more so than is justified by either if taken by itself.

I turn now to the administrative provisions, and especially those which have to do with the assessment of ad valorem duties, such as these high rates on coal

tar products. Early in the session, and without reference to the dyestuffs, it had been proposed there should be a radical change in the assessment of ad valorem duties: they should be levied hereafter on the basis of what was called "American" valuation, that is, on the value in the United States of a "comparable and competitive" article of domestic production. Not a little of pseudo-patriotic bombast was heard in favor of this "American" valuation. Strictly, the problem is one of administrative procedure. It ought to have been divorced entirely from the protective controversy. Unfortunately it is extremely difficult to secure this sort of divorce; any and every matter relating to import duties gets a tinge from the all-pervasive partisan atmosphere. In the act as finally passed there is a curious set of provisions. In the main, American valuation has been discarded. Ad valorem duties are to be assessed in the first instance either on the foreign value of the goods at the time and place of purchase, or on the export value (at that time and place), whichever of these two is the higher. The difference between the two is not often likely to be significant; and in the great majority of cases this value, virtually one and the same, will be the basis of assessment. Such has been the practice for over a century; the attempt to bring about a complete change of procedure has failed. Some further provisions, however, bring modifications. If neither the foreign nor the export value can be ascertained, the duty is to be assessed upon what is called the "United States value" — the value of the *imported* commodity in the United States, less duty, cost of transportation and other expenses. This is a plan for applying ad valorem duties which has much to say for itself and might indeed have been made of wider application; and it may prove of appreciable service. If none of the preceding values



can be ascertained the duty is to be assessed upon the "cost of production" abroad. This will probably prove an empty provision; since the three preceding can be ascertained in almost every case more readily than cost of production. Finally, if all the others fail, the duty is to be assessed upon the "American selling price." The American selling price is the American valuation which the pseudo-patriots had tried to apply universally. Its application would cause the same ad valorem figure to bring a very much heavier effective duty than any of the other alternatives. But it is to be used (barring the one case of coal tar products, just mentioned) only in the last resort, and only if the President exercises certain discretionary powers given him elsewhere in the act.

The discretionary powers given the President have no logical connection with the administrative provisions themselves, and the collocation of the two can only be explained by the vacillations and compromises under which the act finally got its shape. They are connected with still another feature unique in the tariff of 1922. This is the explicit legislative statement, appearing for the first time on the statute book, that the principle underlying our tariff system is that of equalizing costs of production. "In order . . . to put into force and effect the policy of the Congress by this Act intended, whenever the President . . . shall find it shown that the duties fixed in this Act do not equalize the differences in costs of production in the United States and the competing foreign countries," he may raise or lower the duties for the purpose of equalizing these costs; with the limitation, however, that the total increase or decrease of duties shall not exceed 50 per cent. Before applying this power, however, investigations of costs of production shall be made by the Tariff Commission, and the President's action is to be based upon the recommenda-

tion of the Commission. And then follows, curiously enough, the power to apply "American selling price" in the assessment of *ad valorem* duties. If the President finds that the differences in cost of production in the United States and the principal competing country can not be equalized by raising or lowering duties, he shall issue a proclamation to that effect, and thereupon the "American selling price" is to be the basis of any *ad valorem* duty on the article in question; with the proviso, however, that the *ad valorem* rate itself, while it may be decreased by 50 per cent, shall not be increased. The basis of valuation becomes different; the effective duty, at the same nominal rate, becomes higher. This tortuous arrangement is not easy to understand and still less easy to justify. It was doubtless adopted as a device for saving the face of those who vowed they would never give up American valuation. The probabilities are that no considerable use of it will be made.

On the face of it the President's "flexible" powers are thus to be applied ordinarily on the basis of the cost of production principle. Only if this proves impracticable is there to be resort to American valuation. In fact, however, the supposedly ordinary procedure is likely to prove impracticable in almost all cases.

The notion of equalizing costs of production has become a sort of fetish. I say nothing here of its weakness from the point of view of economic principle, having indicated elsewhere<sup>4</sup> that it seems to me fatally unsound as a matter of tenable or consistent theory. It is the question of practicability in administration that is now raised by its being set up in the tariff law. The rule is proclaimed, and an endeavor is made to apply it, quite without regard to the most obvious realities. It is difficult enough to ascertain costs of production in the

4. In the book on Free Trade, the Tariff and Reciprocity, ch. vii.

United States. With compulsory adoption by American concerns of uniform methods of cost accounting; with a large staff of accountants to examine books and check returns from a considerable number of concerns; with some careful procedure for arriving at a mean between the high cost and the low cost producers — representative figures can be secured for American articles of a standardized sort. But can it be imagined that any officials in the United States could do this sort of thing for foreign products? that foreign producers will permit such a control of their accounts and figures as alone would make it possible to ascertain trustworthy comparable figures for the competitive articles in foreign countries? These difficulties, great enough in case of standardized articles, obviously become immensely greater with specialties, and perhaps most difficult of all with goods produced at joint cost ("by-products"). These classes include many of the contested items for which resort to the flexible powers is likely to be sought. A biased or subservient Tariff Commission might make a pretense of having found accurate figures. A basis of well-ascertained fact is almost impossible to find, or if found, to keep up to date.

These provisions are of unlimited application. As I have already indicated, it was the peculiarity of the dyestuffs situation, and the clamorous demand of the dyestuffs producers to be protected against German competition beyond a possibility of danger, which led to them. But they are not limited in time or scope. The President's powers go on indefinitely, until further action by Congress; and they may be applied to any and every article. They are great and dangerous powers, almost impossible of accurate application, easily made subservient to interested pressure, full of possibilities of mistake and abuse.

A distinctive feature in the history of the act of 1922 is that for the first time a Tariff Commission was lending its aid to Congress. How serviceable did the Commission prove?

Needless to say, it could not fulfill the Utopian expectations entertained in some quarters that it would "settle the tariff question" or "take the tariff out of politics." No sensible person conversant with our political ways could suppose that Congress would put into the hands of any such body the settlement of questions of policy or the determination of rates of duty. What might reasonably be expected was an improvement in the technical form of the tariff, and perhaps also more enlightenment among the legislators on the problems before them. The Commission might be of service in promoting a more careful arrangement of the schedules, better enumeration and classification of the several articles, consistency between the duties on raw materials and those on the several stages of the manufactured articles (for example, from raw wool through noils, tops, yarns, cloths, to complete clothing). Much of the phraseology of the tariff acts of other years has been mechanically copied from one measure into the next, regardless of changes in industrial methods and in commercial terminology. There has been abundant room for improvement in these technical matters. As regards rates of duty and substantive effects, even the questions of policy must be left to Congress, its members might at least be provided with more complete and more exact information than they have had in the past. What use they should then make of the data put before them of course must depend, as with all legislation, on the character and intelligence of the legislators. Something at all events is gained if those who are intelligently solicitous for the public interest can secure trustworthy information.

These modest but feasible objects may be fairly said to have been in good measure attained. In Dr. Cole's article, already referred to, the reader will find illustrations of the improvements in the formulation of the textile schedules. The agricultural schedule itself, much affected and indeed distorted tho it was by the unusual political conditions, is better arranged than ever before. Most striking of all is the draftsmanship of the paragraphs relating to coal tar products and dyestuffs. It has just been pointed out that these were the occasion of bitter contention. Yet in the long list of the articles, and in their arrangement under the several heads of crude products (in the main left free of duty), intermediates, and finished products such as dyestuffs, the Tariff Commission's proposals were left unchanged throughout the legislative history of the measure. The paragraphs relating to them were drafted in the office of the Tariff Commission; the language so drafted is incorporated in the act in every detail. When it came to the rates of duty, or the question of embargo or no embargo, or American valuation, there was uncertainty, compromise, shift back and forth, in the various stages of the prolonged session. The height to which the protective policy should be carried was settled by Congress. But the technical form was accepted as it came from the experts of the Commission. This was the case not only with the paragraphs relating to the coal tar products, but with the entire chemical schedule. That schedule as it stood in previous acts, never well constructed and copied mechanically from one tariff to another through many revisions, had become in many respects not only ill-arranged but quite obsolete. It is now in better form than ever before.<sup>5</sup>

5. In this part of the act the services of Professor Grinnell Jones, who was long head of the Tariff Commission's staff on chemicals, were of signal value.

Still another good result achieved from the labor of the Tariff Commission was a great improvement in the general administrative features of the customs system. A glance at the law as enacted will show that a very large part of it, roughly one-third of the printed matter, is contained in Title IV, "Administrative Provisions." This title had a curious history.

Several years ago, long before a general revision of rates of duty was under consideration, the Tariff Commission undertook an examination of the laws regulating administrative procedure. They were found to be in hopeless confusion. The provisions concerning the collection of duties, the functions of the various officers, the organization of the custom houses, and the like, ranged in date from the end of the eighteenth century to the end of the nineteenth. Many of them, tho still on the statute book, were quite obsolete. Often they were inconsistent with each other. Some had been drafted with reference to the conditions of a century ago, when ocean transportation took place in sailing vessels, and were quite impossible of application to the modern steamship. The Commission undertook a thorough overhauling, and prepared an entirely new draft designed to bring order into the confused mass. In the main it proposed nothing new, but simply codified the existing laws, rejecting what was superfluous and obsolete, simplifying what was to be retained. A few substantive changes were made, and to these attention was called in the report to Congress which accompanied the bill, attention being also called to possible alternatives. In the preparation of the revised scheme the Commission secured the aid and advice of officials of the Treasury Department, the Board of Customs Appraisers, Collectors of Customs, and also of members of the Custom Bar of New York City. Hardly a contentious question was

involved. It was merely a reform, obviously called for, in an important matter of administrative procedure.

To this draft, at the time it was submitted to Congress, no individual and no committee was willing to give a moment's attention. The very circumstance that it was a humdrum, uninteresting, undramatic piece of work doubtless accounts largely for the fact that no one was willing to give it the slightest heed. But in the course of the discussions of 1921-22 the proposal for assessing *ad valorem* duties on the "American valuation" led the Committee on Ways and Means to look into the paragraphs upon this subject in the Commission's draft; paragraphs which were in the main a codification of the longstanding system of assessing duties upon the foreign value at the time or place of exportation. They did not fit at all into the then favored scheme. But the discovery of this convenient formulation of the existing system led to the discovery that there was a great deal more in the Commission's draft. With very little discussion, the House committee came to the conclusion that the project was good and incorporated in the House bill virtually the whole of the Commission's draft. Changes were made, of course, in the paragraphs relating to the disputed matter of valuation; and on some other contentious matters also amendments were inserted. In the main, however, the elaborate proposals of the Commission were accepted without change. Much the same happened in the Senate. There too the valuation paragraphs were changed and rechanged, and finally emerged in the shape which has already been explained. Some modifications in phraseology were also made elsewhere, largely at the suggestion of customs officials; and a few provisions of substantive importance were added, the consideration of which would carry us too far afield, and which did not affect

the main body of the draft. Upon the whole the work of the commission was accepted, and a great improvement thus brought about in the clearness and workableness of this part of the tariff system.

Something may be said in conclusion of the character of the debates on the measure and of the character of the measure itself. Perhaps most noteworthy in the debates is the constant insistence by the sponsors of the act on the principle of equalizing costs of production. As I have already remarked, it is embodied for the first time in statutory language; it is declared by Congress to be the principle on which the tariff system is founded. Talk of this sort was more to the fore than at any previous time. And not only this; it was pushed to further extremes than ever before, both in the rates themselves and in their advocacy or justification. There were not wanting senators who expressed their willingness to impose a duty of 500 per cent or 1000 per cent if such rates were necessary for the sacred purpose of equalizing costs of production.<sup>6</sup> It seems to me extraordinary that

6. The following colloquy in the Senate may be quoted (Congressional Record, 67th Cong., 2d Session, p. 12514).

"MR. STANFIELD. Mr. President, does the Senator from Wisconsin want to see American labor put out of employment and American industries closed because he objects to imposing a rate which he thinks would startle the American people and prejudice them against the principles of the Republican Party?

MR. LENROOT. Does not the Senator think that a rate can be fixed so high that it is better for America to have the labor doing something else?

MR. STANFIELD. Not if that rate is necessary to equalize the difference in the cost of production of the foreign article which comes in competition in the American market with the American produce.

MR. LENROOT. Then I do not know where the Senator would stop. The Senator from Idaho (Mr. Gooding) says he would stop at ten, but, if it required 1,000 per cent to equalize the difference in the cost of production, I take it the Senator from Oregon agrees with the Senator from Idaho, and that they are both willing to tax the American people 1,000 per cent for the privilege of having an article manufactured in the United States. I am not; that is all.

MR. STANFIELD. May I answer the Senator's question as to where I would stop?

MR. LENROOT. Yes.

MR. STANFIELD. I would stop when the rate is so high that it is not necessary to equalize the difference in the cost of production in this country and abroad, including labor and the other elements of cost.



sensible men should suppose that they had found here a touchstone for a scientific tariff or a practicable rule on which to proceed in fixing rates in detail.

So far as concerns the range of rates, it is clear that the protective system has been carried further than ever before. The session began with hot enthusiasm for a new tariff. Between the feeling of exultation in the dominant party from their overwhelming victory at the polls and the eager search for a remedy to meet the industrial depression of 1921, the protectionist feeling was more fervid than ever before. There was an unmistakable cooling as the months went on. Depression had largely run its course; some revival of industrial activity set in. Elections to fill congressional vacancies and primary elections went against the stand-pat Republicans. Yet the path once entered upon could not well be left. The extreme policy was put through to the bitter end.

Rash as it is to make predictions, I take it on me to state my expectation that a reaction will come. A complete overturn of the protectionist policy is not indeed to be looked for at any time in the visible future. But a return to a more moderate procedure than that of 1922 is fairly to be expected. Sooner or later the wheel of fortune will bring another party into power, or another combination of parties and factions. Then revision of a tariff act like that of 1922 will be peremptorily demanded. The tariff question is not settled; it is likely to remain on the political battlefield for years to come. And this is to be lamented. The industry of the country can accommodate itself to any system, if once the system be settled. The country can adjust itself to

MR. LENROOT. So if it required 5,000 per cent the Senator would vote for it.

MR. STANFIELD. It would make no difference, because it would pay the American people to be kept employed. If American labor is out of employment the price makes no difference, because they have no purchasing power."

extreme protection or high protection or moderate protection or even to free trade, and can go on prosperously under any one of them. But constant vacillations are a great evil. They are not an intolerable evil, for the simple reason that the influence of the protective system on our industrial system, whether for good or ill, is not so far-reaching as most people think. But an influence it has, and that influence is particularly bad in so far as it is inconstant and uncalculable. Much the wiser course, if a protective system must be accepted as part of the settled order of things, would be to shape it in such form that it would endure for a considerable stretch of time; to eliminate the extreme and vulnerable features, and make a serious and honest endeavor to establish a régime with which the community might remain content. Only in this way is it possible — for a period at least — really to take the tariff out of politics. The tariff act of 1922 can serve no such purpose.

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## THE TEXTILE SCHEDULES IN THE TARIFF OF 1922

### SUMMARY

Congressional history of textile schedules.—Changes in form of schedules, 31; wool duties, 33; textile manufactures, 39.—Changes in rates of duty, 43; wool manufactures, 46.—Improvement in quality of textile production, and public policy, 49.

THE schedules in the tariff act of 1922 which pertain to textile raw materials and textile manufactures manifest with special clearness the influences that played their several parts in the formulation of the whole tariff law: the bargaining of the agricultural interests with the manufacturing; the struggle of the forces making for a law more scientifically constructed against the usual indifference and ignorance; and the careful discrimination between the satisfaction of interested claimants and the maintenance of political security for the dominant party. A somewhat detailed study of the textile schedules, sufficiently interesting and important of itself, serves to bring out these features.

The legislative history is in most respects substantially parallel to that of the act as a whole. The agricultural element had the initiative. It had succeeded in incorporating into the so-called Emergency tariff duties on long staple cotton and on wool—the first tax laid on any sort of raw cotton since 1883 and the highest duty ever imposed on raw wool—and the bloc expressed its determination to see adequate protection to these products continued in the “permanent” tariff law. With this manifesto flung in its face, Congress went to work. The textile subcommittees organized by the

Committee on Ways and Means labored diligently and on the whole constructively upon the portions of the field severally assigned to them, not only attempting to hold the balance even between conflicting interests, but striving toward a structurally better form in the tariff. One or two of the subcommittees, especially that on cottons, utilized either the written data of the old Tariff Board or the direct comments of the Tariff Commission's experts. To the efforts of these subcommittees are traceable most of the improvements in the form of the textile paragraphs. In the Senate committee, however, proceedings had quite a different complexion. In the place of order, confusion; in place of seclusion or at least partial seclusion, the hubbub and constant interruptions of visiting delegations and interested Senators, urging the preferential treatment of this, that, and the other item; and in place of a decent (not always sincere) appeal to impartial authority, contention among prospective beneficiaries within the bounds set by political expediency. Neither in committee nor upon the floor of the Senate was much consideration given to a scientific revision of the tariff, while the trend of rates was appreciably upwards, especially in the case of specific duties. Such rates, it may be added, survived the Conference committee's deliberations with scarcely an alteration. In general, then, as far as the textile provisions are concerned, the structure of the new law is primarily a contribution of the lower house, and the fixation of rates more particularly that of the Senate.

## I

The form of the textile schedules, as just intimated, does exhibit a distinct improvement over that of any preceding tariff act. This is a field in which expert ad-

vice such as that of the Tariff Commission could be of much value, and indeed to that body and to its experts much of the credit for betterment in the law is due. Like most human institutions of long standing the tariff had become burdened with relics of the past, obsolete terms and obsolete articles (e. g., bocking, bedsides, flume hose) and an antique classification of wools. These were eradicated. Again, much of the useless detail of the paragraphs was eliminated. The categories of cotton yarns and cotton cloths were reduced in number; and in the wool-cloth schedule the time-honored classifications of flannels, dress-goods, and "cloths" gave way to one of simpler and unambiguous character based solely on weight. In some cases, moreover, such as wool wastes and wool carpeting, improved arrangement yielded a by-product of greater justice in rates. Previously wool wastes differing widely in character — top waste and garnetted waste, or noils and wool extract — had been carelessly lumped together. Now the articles of substantially similar quality are assembled in each separate group, and the duties levied upon the several categories, specific in type, are fixed somewhat in accordance with their various values. In like manner, the carpet paragraphs, which had heretofore preserved with little change the cast imparted to them sixty years ago, have been modernized to take into account the disappearance of certain varieties and forms of carpeting, the introduction of others, and the present status in the machine production of floor coverings. It cannot be questioned, then, that the textile schedules have been put into better shape and more scientific shape than ever before, their meaning made clearer, and presumptively the administration of the law in this difficult field rendered both simpler and surer.<sup>1</sup>

1. The Tariff Commission was fortunate in having as its chief expert on textiles Mr. W. A. Graham Clark, sometime textile investigator with the Department of Commerce

A further change, outwardly a mere modification in form similar to some of the changes already mentioned but in reality attended with more considerable consequences, is that in the assessment of the wool duty. Previous tariff acts, since the more modern framework of wool tariff duties was erected in the special act of 1867, have contained a basic impost upon wool in the greasy condition (except of course in those periods of 1894-97 and 1913-21 when wool was placed upon the free list). In the Emergency tariff of 1921 this form was still employed. To the basic rate — 11 cents per pound under the Payne-Aldrich law and 15 cents under the Emergency Act upon the principal class of wool fibre — was always added a provision for doubling and trebling the duty upon wool imported in the washed and scoured condition, respectively.<sup>2</sup> Against this form of duty, opposition has existed almost from the time of its origination. Eminent fine woollen manufacturers of the earlier period, such as Edward Harris and Nelson Slater, protested against this method of assessing the wool duty and the whole system of which it was the starting point; and it is said that shortly after the passage of the 1867 act "nearly half of the members of the National Association (of Wool Manufacturers, which had pushed it through) withdrew from that organization."<sup>3</sup> Since the

and former employee of the Tariff Board. Much of the betterment in the form of the textile schedule was due directly or indirectly to his extraordinary fund of information in this field and to his quiet persistence in persuasion.

2. "Washed" wool was defined as that which had been washed upon the sheep's back before the animal was sheared, by which process some of the dirt and other material was removed from the fleece; and "scoured" wool, that which had been subjected to the scouring process, a mill operation, whereby the fibres are cleaned of all dirt, suint, and wool grease, and made ready for the real manufacturing processes.

The provisions for doubling the duty on washed wool, and trebling that on scoured wool (of Class I staple) were in effect practically prohibitive. Only wools of the highest shrinkages could be profitably imported in the face of such rapidly increased duties — and in fact these wools were rarely imported in any form.

3. John L. Hayes before the Tariff Commission of 1883, *Bulletin of the National Association of Wool Manufacturers*, 1883, p. 9. Mr. Hayes gave the cause of this withdrawal as the inadequacy of the compensatory duties (see below). However, see pamphlet by Edward Harris, *The Tariff and How it Affects the Woollen Cloth Manufacture* (1871); and H. N. Slater, in *the Nation*, 1878, p. 183.

taste of freer importations in the nineties, and especially since the formation of the Carded Wool Manufacturers Association a decade later, the pressure for a change has been constant.

The case against a grease-wool duty seems at first sight overwhelmingly strong. A tax upon dirt even of Australasian or Patagonian origin appears ridiculous. Yet the situation is not as bad as it seems. To some extent the quantity of extraneous material adhering to the wool fibre, and so the amount of shrinkage in scouring, varies directly with the fineness of the staple. The finer the fibre, and so *ceteris paribus* the more valuable the wool, likewise the greater the amount of wool grease, suint, and dirt in the unwrought fleece. Thus the ad valorem equivalent of the specific raw wool duties worked out, for a large proportion of our imports, at figures that did not vary too widely among the various grades of this textile material. Again, the assessment upon this basis fitted conveniently with commercial practice. Relatively few wools came upon the world markets in other than the greasy condition, both because of the lack of scouring facilities in wool-exporting countries and because of a strong trade preference for wools in the greasy state. Yet duties on the grease-wool basis, especially with a rate as high as that in the tariffs of 1897 and 1909, did operate to exclude a substantial quantity of wools. These were principally wools of two classes: first, the high-shrinkage and high-grade merino wools such as come from South Africa and some parts of South America; second, the lowest types of wools for clothing purposes, the tags, skirtings, and the like from any medium or fine wools, and wools of coarse fibre tho low shrinkage. These were chiefly wools usable in the woolen branch of the manufacturing industry. Moreover, it was of advantage to American buyers to

secure wools of relatively low shrinkage even among wools which theoretically might be brought in — that is, the use of which by American manufacturers was compensated for in the so-called compensatory duties on wool products. Indeed, it was principally wools of this character, known abroad as “wools for the American market,” which were brought in under the Dingley or Payne-Aldrich tariffs. The action of these various factors was in fact so great that the duty of 11 cents per pound of grease wool, as in the Payne-Aldrich Act, was found to yield a duty of only 18 cents per pound of clean wool upon the raw material actually imported, instead of the duty of 33 cents contemplated by that tariff.<sup>4</sup>

The old Tariff Board, having ascertained the practical effect of the grease-wool duties and having canvassed the possible alternative methods, recommended the adoption of duties upon the clean-wool basis; and in this view the present Tariff Commission concurred.<sup>5</sup> Apparently these counsels had weight with the House subcommittee, altho the unkind critic might find in the change a purpose to obtain furtively that which would otherwise be politically unwise to attempt.<sup>6</sup> A duty upon the clean-wool basis was reported to the House, and despite attacks upon it, especially as to its practicality, was retained through House, Senate, and Conference committee. The rate, however, was modified in transit. The House rate had been the not unreasonable one of 25 cents per pound of clean content, with the pro-

4. Tariff Board's Report on Schedule K (1911), p. 382.

5. *Ibid.*, pp. 12, 392 ff.; Tariff Commission's Report on the Wool-Growing Industry (1921), pp. 26, 27, 455 ff. The Tariff Commission suggested a modification of the Tariff Board's recommendation: that the duties, still on the clean basis, should be graduated in accordance with the quality of the wool, three classes — coarse, medium, and fine — being proposed. Thereby somewhat the same protection, in *ad valorem* terms, could be extended to each grade of fibre.

6. The efforts of the Carded Wool Manufacturers Association probably did not go for nought, but it is a question whether its endeavors prevailed much against those of the National Association of Wool Manufacturers, a larger and equally active body, which was content with the old form of duty.



viso — suggested it is said by the Tariff Commission — that in no case should the duty exceed a stated ad valorem rate (provisionally fixed at 35 per cent). But the Senate, in accord with its general policy of increasing specific rates above those adopted in the lower chamber, jumped the duty to 33 cents per pound and — what is perhaps even more important — eliminated the ad valorem restriction entirely. Finally, in the give and take of the Conference committee's dealings (mostly "give" on the part of the House), the rate was reduced a nominal 2 cents, and stands in the act at 31 cents a pound on the clean wool.<sup>7</sup>

The net effects of the change in form and amount of the wool duty are shown in the following table:

COMPARISON OF AD VALOREM EQUIVALENTS GIVEN BY AN 11-CENT GREASE-WOOL AND A 31-CENT CLEAN-WOOL DUTY

	Cost in grease (cents)	Shrinkage (%)	Cost clean (cents)	Old system		New system		Duty less (-) or greater (+) under new system (%)
				Duty per clean lb. at rate of 11 cents per grease lb.	Ad valorem equiv- alent on clean for- eign cost	Duty 31 cents per clean lb.	Ad valorem equiv- alent on clean for- eign cost	
Merinos:								
Patagonian .....	12	75	48	44	91.7	31	64.6	- 29.5
Cape .....	26	66	76.5	32.4	42.3	31	40.5	- 4.1
Australian 64s .....	50	50	100	22	22	31	31	+ 40.9
Crossbreds:								
South America 58/60s ....	32	45	58.2	20	34.4	31	53.3	+ 55.0
New Zealand 58s .....	40	40	66.7	18.3	27.5	31	46.5	+ 69.0
South America 50s .....	26	36	40.6	17.2	42.3	31	76.3	+ 80.4
New Zealand 50s .....	31	30	44.3	15.7	35.5	31	69.9	+ 97.3
New Zealand 36/40s .....	15	25	20	14.7	73.3	31	155	+111.4

The price data in this table are from letter of Mr. Franklin W. Hobbs, in Hearings on General Tariff Revision before the Committee on Ways and Means, 1921, pp. 2731, 2732.

7. The attack on the clean-wool basis for duty, as above intimated, was mainly directly upon its impracticality. Plans for its administration have not as yet been worked out. They present many difficulties; yet none that appear insuperable. Each year millions of pounds of wool change hands wholly upon the traders' estimates of clean-wool content, and probably the estimates of two experienced buyers would not vary materially. It seems possible for the government to institute some system, perhaps calling upon the assistance of impartial trade juries and aided by occasional laboratory and conditioning-house tests, which will gain the confidence of the wool importers and render substantial justice between the government and the merchants.

Wools of the highest shrinkages, the sorts that were rarely if ever imported, were more severely burdened under the 11-cent grease-wool duty of the Payne-Aldrich Act. On the other hand, wools at the low end of the quality scale, coarse crossbreds and common staples, are much more heavily taxed under the new rate — but these were also practically excluded by the earlier duty. Accordingly, the practical effects of the change come to this. Some of the higher-shrinkage wools, such as the Cape merinos, will be more readily available to domestic consumers; but others — the Patagonian merinos and the tags, skirtings, etc., spoken of above — will probably be as effectually excluded under the new as under the earlier form of duty; since, in *ad valorem* terms, it is still high. The decrease in impost for such as are actually brought in will be small, probably not over 10 per cent of the previous duties. For the wools which have been chiefly imported in the past — lower-shrinkage full-blood merinos such as the Australian 64s in the above tabulation down to cross-bred quarter-bloods — the Fordney-McCumber duties mean an increase of from 40 to 75 per cent. Indeed, the rate on wools below three-eighths blood or 56s in quality becomes so heavy, running to 70 or 75 per cent *ad valorem*, that very possibly these staples will be largely excluded. That a considerable increase in impost was inevitable is apparent from the outstanding fact that the 1909 rates on wool worked out as an effective duty of only 18 cents per clean pound upon imported fibre, whereas the 1922 tariff levies a clean-content duty of 31 cents.

From the protectionist point of view, the increase in rates is not without justification. The costs of sheep-raising in those regions where the industry is conducted upon a commercial basis, as in the important range

states, have unquestionably increased markedly during the last decade. The Tariff Commission found that expenses per pound of wool produced in these range states had nearly trebled between 1910 and 1919: 45 cents per pound as compared with 16 cents at the earlier date.<sup>8</sup> While there has been some decline in these costs since 1919, they have probably by no means reached their old level. The industry has been affected not only by general economic forces but also by special factors making for a permanent enhancement of costs: the decline in area of free range lands, the necessity of purchasing and fencing private ranches, and the increased cost of such land due to the greater competition of general farming. Probably in many cases the increase of 75 per cent in average tariff rate on wool, or of 13 cents per pound of clean wool, is more than met by the rise in domestic costs. Yet the fact cannot be dodged that domestic consumers of wool fabrics are paying a substantially higher price for the maintenance of our domestic flocks — and, be it noted, merely “maintenance,” since there is little likelihood of an extension of wool-growing. Signs point rather to a decline in production, even in absolute terms, while unquestionably the domestic clip will form, relative to our total wool consumption, a steadily declining factor — and this, whatever the tariff.<sup>9</sup>

8. Report on Wool-Growing Industry, pp. 197 ff.

9. The proportion of foreign to total wools consumed in the domestic woolen and worsted industries in the census years 1904, 1909, 1914, and 1919 was as follows:

	1904	1909	1914	1919
Domestic wool (million lbs.) . . . . .	319.8	310.6	266.6	245.8
Percentage of total . . .	76.4	65.4	61.4	55.5
Foreign wool (million lbs.) . . . . .	98.9	164.1	168.1	197.6
Percentage of total . . .	23.6	34.6	38.6	44.5

The Tariff Commission, in a communication to Senator Calder, estimated that the imposition of duties upon wool, with the consequent compensatory duties upon wool cloth, would, at the compensatory rate of 49 cents per pound, work out as an increase of

Just what would happen to the domestic wool-growing industry if importation of wool free of duty were permitted for a number of years under normal conditions is a difficult question in probabilities. An immediate and substantial decline in clip would undoubtedly occur, but the industry would by no means be obliterated. As Professor Taussig has suggested,<sup>1</sup> a production sufficient for war needs would assuredly be retained. Certain considerable sections of the country, especially in the West, are adapted to little else; and besides one may anticipate the maintenance and perhaps an increase in the number of sheep raised in connection with general farming, which, as just indicated, is itself extending its domain ever more widely. It is possible that these forces would in time bring about a return in production to approximately the present level as far as quantity is concerned, altho, to be sure, the quality of the domestic output might somewhat suffer. It seems quite unlikely that a permanent decrease of one-third the existing clip would occur — the most extreme pessimistic estimate which I have heard among experts. Protectionists have apparently been influenced chiefly by the probable difficulties and losses of the necessary period of readjustment.

In another and quite different section of the wool duties there has been more than a change in form, namely, in the duties on carpet wool. Here the change is indubitably a betterment. For more than a half-century wool-growers have resisted vigorously — and successfully — any attempt to grant free ingress to carpet wools when other wools were made dutiable. Always there has been a specific duty upon these coarse and relatively cheap staples, lower in absolute amount

93 cents per pound of cloth. This would mean an increased cost for a suit of clothes of \$2.03 to \$2.85; and for a heavy ulster, of \$5.29 to \$5.70 (Congressional Record, July 25, 1922, pp. 11597-8).

1. See above, p. 9.

than the duties upon the better quality wools, yet often equivalent to as much as 35 or 40 per cent *ad valorem*. Meanwhile, from the time of the Syracuse Convention of 1866, wool manufacturers have argued, and argued rightly, that such wools are in a negligible measure, if at all, competitive with the wools produced in this country.<sup>2</sup> Finally, and apparently as part of the exchange for higher agricultural duties generally, the Senate Finance committee inserted provision for a new system: nominally the rate is much increased — from 4 to 7 cents in the Payne-Aldrich tariff to 12 cents per grease pound — but such wools may be imported in bond and, if they are subsequently used in the manufacture of carpets, the duties will be refunded. Now that this position has been attained, it may perhaps be defended against future assaults of the domestic wool-growing interests.

We may turn now to the duties on textile manufactures. Here there has been at least one notable change in form, a diminution in the use of specific rates. The drift of our recent protectionist tariff laws, especially those of 1897 and 1909, as well as that of most foreign tariffs, has been decidedly in the direction of more numerous and more detailed specific duties. The Fordney-McCumber Act manifests a reaction. There is scarcely a paragraph in which specific rates displace *ad valorem* ones of, say, the Payne-Aldrich law. In some cases, where specific duties are retained, they are much simplified, for example, the paragraphs covering cotton yarns and cotton cloths. In other cases, as those of silk fabrics, cotton knit goods, and fabrics made of flax, hemp, and the like, the whole systems of graduated

2. When woollen cloth manufacturers desire to produce what is called a kempy effect, they mix in a small proportion of carpet wool. This contains usually a certain number of smooth, hair-like fibres, which do not take the dye as well as the rest of the batch and so yield the effect aimed at.

specific rates are scrapped, being replaced by simple ad valorem charges.

The legislative history of this change in the case of broad silk duties is suggestive. Here an unusually elaborate schedule of specific rates, covering pages in the tariff law, had been worked out and incorporated into the act of 1909.<sup>3</sup> The House subcommittee, in accordance with the general policy of the Ways and Means committee, resurrected this schedule, and incorporated it into the new bill with hardly a change in form or rate. The committee did, however, add a minimum ad valorem clause to the paragraph. When the Senate committee took up revision of the House schedule, especially the substitution of a minimum ad valorem rate based upon foreign in place of one based on American valuation — and more particularly an “adequate” ad valorem rate of this character — it was seen that the specific duties as outlined by the House were nearly useless by reason of the revolution in costs and prices which has occurred since 1909. To counterbalance this movement in costs and prices, and perhaps to counteract the advantages of certain Continental producers arising out of disordered currency conditions, such specific duties would have to be substantially enhanced, perhaps doubled, and possibly more than doubled. Yet political expediency — and the reaction after 1909 would make legislators somewhat cautious — rendered hazardous any such increase. It would be altogether too easy for opponents of a high tariff to point to the fact that a rate of \$3.00 per pound had now become, say, \$7.00.<sup>4</sup> Accordingly, the whole idea of specific rates was

3. A less elaborate schedule of a similar cast had been introduced into the Dingley tariff.

4. Moreover, the Senate committee was persuaded that the retention of the old scale of specific duties would serve no useful purpose, when they would be actually operative on but one or two groups of fabrics, chiefly, pongees and the lighter grades of habutai — fabrics not produced in this country. Upon all others, the minimum ad valorem provision would come into action.

junked, and the act as passed contains simple ad valorem duties in many of its silk paragraphs, notably, those covering thrown silk, woven fabrics or broad silks, plushes, and ribbons.

This change in the type of rates, however, resulting from the peculiar exigencies of the price conditions of the moment, may prove but a temporary phenomenon. Another tariff law — especially when the Payne-Aldrich Act has become altogether past history — may well see a return to specific duties, not only in the case of silk manufactures but in other lines. Indeed, there is already on foot a scheme for the formulation and possible future enactment of specific duties upon wool products, a field (except for compensatory provisions) heretofore untouched by this movement. Many arguments favor the wider imposition of specific rates, and seemingly these now have general endorsement both in and outside of Congress.

On the whole, it is unquestionable that the form of the textile schedules is superior to that in any recent tariff law. For the first time since 1846 the tariff has been framed with the aid of expert counsel. During this period industrial change has been rapid, and the tariff law has preserved many relics of the past. So far as concerns classification, definition, arrangement, the textile sections have fared in the Fordney-McCumber Act as well as any, and better than many. The modernization and simplification of these paragraphs are unalloyed benefits. As far as form is concerned, the alterations in the wool duties in the case of clothing and combing as well as of carpet wools are distinct advantages; criticism must be directed to the rate, if anywhere. The return to larger use of ad valorem duties is neither definitely good nor bad: something can be said on either side. The balance lies clearly to the credit of the new act.

## II

Passing from the form to the substance of the paragraphs covering textile manufactures, one is impressed at once, even from a cursory reading of the law, with the increases of rates, not merely over those in the Underwood Act but also over those in the relatively high tariff of 1909. Decreases there are, to be sure, as compared with the latter if not with the former law — for example, in connection with certain linen fabrics, with wool tops, and with the lower counts of cotton yarns. The decline in the duties on finer linen cloths will presumably inure to some advantage to the domestic consumer; but it is worth noting that in this case no domestic manufacturing interest was affected, no such fabrics being woven in this country.<sup>5</sup> In other cases — wool tops, thrown silk, or carpets — the rate retained is still so high as to be practically prohibitive under normal economic conditions. Finally, in regard to such products as the lower count cotton yarns and the lower priced knit goods, the importations have never been significant. Under the somewhat lower duties of the Underwood tariff, cotton yarns below 40s in quality averaged during the five-year period 1914-18 only 12 per cent of the total cotton yarn imports, thus comprising a really negligible proportion of total domestic production.<sup>6</sup> Of wool hosiery, competitively the weakest link in the knit-goods schedule, imports under the same tariff averaged but 2000 dozen pair per annum.<sup>7</sup>

5. In the case of coarser linen fabrics, such as crashes and paddings which are or may be manufactured in the country, high rates were imposed.

6. The chief imports of cotton yarns have recently been around 80s count (Tariff Commission's Report on Cotton Yarns, p. 242). Upon this and higher qualities rates will probably work out higher than under the 1909 law.

7. Certain sections of the knit-goods industry, however, are much dissatisfied with the rates enacted in the new law, chiefly through fear of overwhelming German competition under existing abnormal conditions. Apparently they propose to take immediate advantage of the "flexible tariff" provisions.



Attention should rather be given to the enhancements in rates, since that is unquestionably the general trend of the new textile schedules. Some of these changes, to be sure, are of no greater significance than the decreases just mentioned. The new duties upon the commoner (countable) cotton cloths, for instance, will work out at substantially higher specific rates for the various types of fabric, and probably in some cases a somewhat greater ad valorem equivalent. But presumably the course of importation will be little affected. The war-sprung domestic production of cotton venetians, one of the heaviest imports before 1914, is likely to be consolidated and retained; and there may be some further extension toward the manufacture of finer and more specialized fabrics. For the most part, however, the lines of our chief activity in this field were pretty well laid out before the war; imports were rather supplementary than directly competitive; and it is probable, with the advance of our export trade in cotton cloths, that this situation will be largely maintained.

In a special branch of the cotton manufacture, that of laces and embroideries,<sup>8</sup> the increase of rates has been substantial and notably frank. Here is an application of protection which the cynic might say had been brought on through dabbling in free trade! For the space of approximately a year and a half after the tariff of 1909 went into effect, importation of lace and embroidery machines was, by the terms of that act, permitted duty-free. As a result the capacity of the domestic lace and embroidery industry was more than doubled. Subsequently the abnormal conditions of the war period went to expand still further this relatively new manufacture, imports between 1914 and 1918 declining 50 per cent. The tariff act of 1909 had provided

8. There is some production of silk laces, net, veils, and the like, but even in value cotton goods comprised in 1914 nearly 85 per cent of the total output.

rather liberally for this "infant industry," with rates usually of 60 and in one case of 70 per cent ad valorem; and the Underwood tariff preserved the duty at the former figure. However, these deterrents to imports were inadequate in the conditions of the post-war period; foreign goods crowded in; and the domestic producers with their recent undertakings of finer production and in the face of some particularly effective German competition, might well make a strong protectionist case. At all events, duties were raised until now for the greater bulk of lace and embroideries imported the rate is 90 per cent ad valorem. This is the highest straight ad valorem rate ever incorporated in an American tariff law for simple protective purposes.

In the case of thrown silks, much the same situation obtains as in that of cotton cloths. Neither the change in form of duty, already spoken of, nor the modifications in the rates, foreshadow any considerable change in the industry itself. The duties on thrown-silk yarns and on sewing silk are still so high as to exclude foreign competition. For example: while the throwing of silk is a simple and inexpensive machine operation, and the value of thrown silk due almost wholly to that of the raw material, this product is dutiable at 25 per cent of its total valuation. With regard to broad silks, there is an appreciable increase in rate even over the 1909 tariff, freely spoken of by the silk people themselves.<sup>9</sup> Under that act the specific duties produced actual ad valorem rates sometimes as great as 60 per cent; but the great majority of broad silks came in under rates less than 55 per cent, and in such a normal year as 1912 25 per cent of total importations, on the basis of quantity, and over 30 per cent on the basis of value, were burdened only with the minimum ad valorem rate of

9. American Silk Journal, September, 1922, p. 57.

45 per cent. The advance to a straight 55 per cent duty, then, means in effect an increase. However, the failure of Congress to enact high specific duties practically closes the door to production by domestic manufacturers of those silk fabrics, habutai and pongee, which are the chief broad silks imported and the only silk goods where foreign supplies dominate the domestic market. An ad valorem duty even of 55 per cent will have small effect here because of the relatively low unit value of these fabrics. With the exception of these oriental products, and of the latest style or highest quality fabrics from European (chiefly French) sources, the great volume of our consumption now as heretofore will come from domestic mills.

On the other hand, the increase in rates upon the spun-silk products, especially spun-silk yarns and silk plushes, will probably lead to an extension of that industry, or at least a firm maintenance of its war-blown growth — in so far as called for by domestic demand. This branch of the industry is not as well established in this country as that of thrown silks, and in many respects it possesses points of weakness similar to those in the woolen branch of the wool manufacture: technical difficulties in the handling of the specific raw material in large-scale production, lack of equipment superior to that of foreign producers, and the like. To this manufacture, then, higher duties are presumably welcome, and, from the point of view of relative production costs, probably in some degree justified.<sup>1</sup>

In the old domain of Schedule K (now to be known as

1. Under the Payne-Aldrich tariff, the specific duties upon spun-silk yarns worked at slightly more than 35 per cent, but in a normal year (1912) 38 per cent in quantity and 42 per cent in value came in under the minimum ad valorem rate of 35 per cent. The 1922 tariff raises the rate on single yarns to 40 per cent, and on two or more ply yarns to 45 per cent. Somewhat the same story may be told of silk plushes, which are almost wholly made of spun-silk yarns. All but a negligible proportion of them were dutiable in 1909 at less than 60 per cent ad valorem, and a fifth to a quarter at the minimum 45 per cent rate. Now all must pay 60 per cent ad valorem.

Schedule 11), interest centers on the "compensatory" duties, rather than upon the avowedly protective rates. The *ad valorem* rates imposed "for protection only," while substantially higher than in the Underwood Act, are not above those of the tariff of 1909 and usually a trifle lower. Compensatory duties, i. e., those duties imposed upon wool manufactures to indemnify domestic wool manufacturers for the higher price which by reason of the wool duties they must pay for their raw material, have long been a point of contention with respect to the tariff on wool products. It is unnecessary here to recount these difficulties: the question is whether or not the ratio of 4 to 1, adopted as far back as 1867, was at all justified. It will suffice to recall that the Tariff Board found this system of compensatory duties an abundant source of concealed protection, and largely on this account made the recommendation, above referred to, of a clean-wool duty upon the raw material. We now have the wool duty upon a clean-wool basis; nevertheless the compensatory rates still give promise of concealed protection, tho, to be sure, on a much smaller scale than previously.

A curious feature of the present situation is that the methods employed in arriving at the new rates have the apparent endorsement of the Tariff Board of 1911. Someone took a leaf out of the Board's findings, which in parts were quite unpleasant reading for the domestic wool manufacturer, and used them for securing higher protection to the industry. The story is briefly as follows. The Tariff Board found that the wastages of raw material in the several stages of wool-cloth manufacture (taking into account the normal relative values of recoverable wastes) would average certain proportions: in the conversion of scoured wool to tops, around  $7\frac{1}{2}$  per cent; of tops to yarns,  $4\frac{1}{2}$  per cent; and of yarns to

finished cloth, apparently around 12 per cent.<sup>2</sup> It pointed out, however, that there were cases in which these losses would run as high as 10, 8, and 20 per cent, respectively — and now Congress, the House subcommittee and, following it, the Senate Finance committee, have used the latter figures! Typical is the case of conversion from yarn to cloth. Here the Tariff Board stated: "If it is desired to compensate the manufacturer of the *heaviest* shrinking *woolen* fabrics [*italics mine*] . . . the compensatory duty must be as much as 20 per cent of the compensatory duty on yarn higher than that duty. On the other hand, there are certain fabrics for which a fair compensatory duty would exceed the compensatory yarn duty by less than 5 per cent."<sup>3</sup> Practically all worsted cloths receive additional protection from the compensatory duties as arranged in the new tariff, and a considerable proportion of woolen fabrics also. The compensatory duties of course could not properly be elaborated upon the basis of minimum losses in conversion; but with average percentages of wastage the compensatory duties would run 12 per cent lower than those actually embodied in the present tariff. Thus, even in the régime of clean-wool duties, there is still room for the play of the wool manufacturers' doctrine that the extreme case should be the guide in fixing compensatory rates.<sup>4</sup>

2. Tariff Board's Report upon Schedule K, pp. 621-626. The Board gives no average for the conversion of yarns to cloths; but it does present the results in 55 cases of worsted fabrics and in 40 cases of woolen fabrics. These show average losses of approximately 10 and 15 per cent, respectively. Inasmuch as worsted yardage is twice as great in the American industry as woolen cloth yardage, an average for the whole domestic production would lie around 12 per cent.

3. *Ibid.*, p. 625.

4. Some minor overprotection of a similar character is evident in the paragraph on cloths weighing less than 4 ounces per square yard, i. e., the old "dress-goods." Here, compensation for cotton-warp fabrics is figured upon the assumption that the warp will equal a quarter of the total weight. Inasmuch as the warp not infrequently amounts to a third or more of the total weight, obviously the domestic manufacturer is indemnified beyond his deserts. However, as suggested, this is not an important item.

It should be noted, however, that, as already intimated, the amount of protection provided in this manner will not by any means run as large as under the old compensatory system. The possible variations among wool products are not as great after the element of shrinkage from raw to clean wool has been avoided. Then, too, the extent of possible overprotection is reduced by the very proper inclusion of a limiting clause in the case of maximum compensatory duties: as regards cloths valued at more than 80 cents per pound, to which the maximum compensatory duty applies, this is to be paid, not upon the full weight of the fabric, but upon "the wool content thereof." It may be noted that this provision is applied to the above high-value cloths alone. It might well have been employed in the case of lower-valued cloths, which often contain a considerable admixture of cotton, and particularly to the so-called "merino" (cotton and wool mixed) knit goods. Still, it does mark a distinct advance over previous methods; and now that a breach has been made perhaps in the future the old structure may be remade throughout.

The complexion of the schedules on textile manufactures as a whole shows effects of the abnormal period since 1914. During these years our textile industries expanded in many lines. The manufacturers of thrown-silk fabrics took over the production of somewhat finer goods than heretofore. The spun-silk industry grew apace, and grew rapidly. Tho the really big lines of manufacture in the cotton-goods industry were not markedly affected — in part because our chief competitor, England, was able and tried hard to maintain a fairly adequate and normal exportation to our markets — yet in certain lines, e. g., venetians, cotton gloves, and laces, peace found our manufacture much extended. In

floor coverings, new branches of production were launched during these years, notably the chenille Axminster and the so-called fibre rugs; and these found competition serious as post-war conditions made importations easier. Finally, wool-cloth manufacturers seized upon the opportunity presented by the elimination of the Continental producers to expand into higher quality levels the output of their mills. The manufacture of dress goods was particularly affected, and within this group fabrics wholly or in part composed of yarns produced on the French or Continental method. The manufacture of nearly all these varied textile fabrics appears to labor under peculiar difficulties. They are chiefly goods in which this country seems to have less comparative advantage than in the lines previously established.

This feature of the situation opens up a still more general consideration. Each branch of the textile industry domiciled in the United States has manifested a tendency to seek after and gradually to take up the production of ever finer goods. Thus the cotton industry, until opportunities opened up for profitable export trade in the coarser and medium grade fabrics, was pushing forward from the production of drills, sheetings, and shirtings to that of the finer gingham, voiles, and the like. The endeavor for finer manufacture, tho it has not ceased, is not as pronounced as a decade or two ago. In the wool manufacture it is still active. With each increase of the tariff, or, as in recent years, with abnormally easy competitive conditions, the industry takes on a few new lines of production. Our mills admittedly are able to turn out woolen and worsted fabrics which in many branches are regarded by competent observers equal in quality to foreign products; but these are manufactured, especially in the case of the

finer woolen "cloths" and the finer, soft-feeling dress goods, under conditions which, I believe, are substantially less advantageous than in the case of the commoner fabrics. In the silk, spun-silk, carpet, and knit-goods branches, instances of similar nature could be found. The question is obvious: which way are we bound? Apparently the protective tariff rates are destined and impelled to become ever higher; especially so under the theory of equalized production costs and with the practice of measuring protection for the whole of a group by the conditions of the least efficient unit thereof. It is perhaps a matter for congratulation that our textile industries have already traveled so much of the road toward the more elaborate and expensive grades, and that in at least a few branches one can even now see daylight ahead. The cotton manufacture, for example, in many of its divisions is finding it possible to look with something like complacency upon the partition of the whole field with its international competitors; and it is probable that soon some sections of the cotton knit-goods industry, and perhaps the thrown-silk manufacture, may reach the same stage. For other sections of the textile manufacture, as that of wool-working, self-sufficiency is apparently as yet distant; and there are some branches where the process of naturalization or domestication has not even commenced — such as the weaving of most linen cloths, the production of gunny-sacking, and indeed various finer lines in the older industries.

The treatment best to be accorded these latter groups of enterprises is a matter which invites a direct inquiry into public policy. Two alternatives are open. Duties may be pushed higher and higher, as they have been pushed one stage by the recent tariff act, to acquire or preserve the production of special grades and types of



textile fabrics, and so to embrace and protect an ever greater diversity of domestic textile manufactures. This policy would be pursued presumably without regard to the adaptation of these manufactures to American economic conditions. On the other hand, one may conceive of a more thoughtful program. Protective duties would be kept to a moderate level, and domestic industries permitted to turn out only those products which they could fabricate without an extreme measure of artificial assistance. While such a method would perhaps seem to make for stagnation in these manufactures, this does not necessarily follow. Rather, by tying the acquisition of new grades or qualities in production to the improvement in technique and management, such a plan would appear to promise greater spirit and more substantial progress in these fields. The question, then, may well be asked: which of these policies would in the long run probably be of greater advantage and greater benefit not only to the nation as a whole but even to the textile industries themselves? which would probably be more conducive both to the contentment and to the industrial strengthening of the country?

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## THE FOREIGN EXCHANGES

### SUMMARY

Rate of exchange between two moneys part of a larger problem, 52. — Conditions requisite to equilibrium of exchange, 53. — Exceptions (1) government control, (2) monopoly, 54. — Connection between different commodities in international exchange, 56. — The effect of inconvertible paper, 62. — Purchasing power parities, 63. — Lapses from alignment between actual and normal rates of exchange, 70.

1. THE rate of exchange between two moneys, e. g., dollars and sterling, is measured by the amount of sterling in England that will exchange against a claim for the immediate payment of a dollar in America. It is thus a particular example of something much more general. Just as there is a rate of exchange between dollars and sterling, so there is also a rate of exchange between lead in England and iron in America, tho it does not happen that documents embodying this rate of exchange are drawn up and quoted on the market. Exchanges between the moneys of different countries are in practice affected by bills at six months, bills at three months, bills payable on demand and telegraphic transfers. When one buys with sterling a bill for dollars that will only yield dollars after an interval, the price paid must obviously include an item for interest, and is not, therefore, made up altogether of the pure sterling price of dollars. Even when a bill is payable at sight, a person who buys it for sterling in London cannot obtain dollars from the person on whom it is drawn until it has been sent to New York. Thus, the sterling price of a sight bill for dollars in London is made up of the pure

price of the bill *plus* about a week's interest. It follows that sales of sight bills for dollars against sterling in London and sales of sight bills for sterling against dollars in New York will not indicate exactly equal rates of exchange between sterling and dollars. With telegraphic transfers, however, the element of interest is eliminated. Contemporaneous interchanges between sterling and dollars effected by these means are bound, except for momentary deviations, to take place at the same rate in whichever country they are made: for, if in New York the rate were \$4.80 to the pound and in London \$4.70, operators in arbitrage would immediately sell sterling for dollars in New York and buy sterling with dollars in London, and would continue to find profit in doing this until the two rates were adjusted. Hence, the pure rate of exchange between sterling and dollars prevailing at any moment can be properly spoken of as a single thing, without reference to the place at which the exchange is made: and the same thing, of course, is true of the pure rate of exchange between *any* two moneys. It is with this single rate of exchange that the following pages are concerned. It is proposed to investigate (1) the conditions of exchange equilibrium, (2) the influences under which the equilibrium position or, more briefly, the norm of exchange, may be altered, (3) the causes and consequences of different sorts of lapses from alignment between actual exchange rates and the current norm of exchange, and (4) government interference with the exchanges.

2. The conditions requisite to the existence of exchange equilibrium are easily generalized as follows. Consider any commodity whatever that is in use in both of two countries. The commodity may (1) flow from country A to country B, or (2) flow from country B to country A, or (3) not flow in either direction. For any

commodity that does flow, exchange equilibrium requires, in general and subject to two exceptions which will be considered immediately, that a unit in the country of export shall buy a claim in the country of import to a unit *minus* the cost in transport, taxes, loss of interest and so forth involved in sending a unit there. For the present purpose the interest element, which obviously varies with the time required for effecting transportation, is unimportant and may be neglected. For any commodity that does not flow between the two countries exchange equilibrium requires that a unit in one country shall exchange for a claim on a number of units in the other, not less than one unit *minus* the cost of transportation (including taxes) outwards, and not more than one unit *plus* the cost of transportation inwards. These two costs of transportation may, of course, be different. So far as they are due to import or export duties, they are pretty certain to be different, and, even apart from taxation, they will very likely be different, since there is no necessity for out and home freight rates to be equal.

3. It was said above that this analysis is subject to two exceptions. The reason is that it depends on two assumptions. These are that, if some stuff is being sold in one market at a better profit than in another market, people (1) *will be able to* and (2) *will desire to*, divert units of the stuff from the less to the more profitable market, until the discrepancy between them is destroyed. These assumptions are not always justified.

First, it sometimes happens that a government permits the import or the export of a commodity up to a certain amount under a system of licenses, but forbids import or export in excess of a defined maximum. That is to say, would-be sellers are *not able* to divert their stuff, after a point, from the less to the more profitable

market. In these circumstances, if the commodity is flowing in quantities less than the permitted maximum, that maximum has no effect. But, if it is flowing up to the maximum, it is no longer true that exchange equilibrium requires a unit in the exporting country to be capable of buying a claim to a unit *minus* the cost of transportation in the importing country. Further units could only be sent at an infinite cost. Hence, all that exchange equilibrium requires is that a unit in the exporting country shall buy a claim in the importing country to *not more than* a unit *minus* the cost of transporting one of such units as are in fact transported. Since the cost of transporting further units is made by the government prohibition infinite, a unit in the exporting country can buy a claim in the importing country in any quantity less than this, without violating the conditions of exchange equilibrium. Thus, when a definite limit was established to the amount of coal that might be exported from England, a ton of coal in England might have exchanged against a claim for as little as, say, a hundredweight or even an ounce of coal in Sweden.

Secondly, when the production of a commodity in one of two trading countries is in the hands of a monopolist, this monopolist, tho *able* to divert his stuff from a market yielding less to one yielding more profit, may not *desire* to do so. For the transference of a unit from the foreign market, where, we may suppose, a lower profit is being made, would not only lead to that unit being sold on better terms than before, but would also lead to the other units proffered in the home market having to be sold on worse terms, and, under certain conditions, the loss would exceed the gain. This is merely another way of stating the familiar proposition that a monopolist can sometimes make his largest aggregate

profit by discriminating in price between two markets. In these conditions a unit in the exporting country may exchange against a claim to more than a unit in the importing country in spite of the fact that the process of import involves costs.

4. Up to this point we have considered conditions of equilibrium as regards single commodities separately. We have now to take account of the links between them. Houses in England and theatres in America, being both non-transportable, may, so far as they alone are concerned, exchange against one another at practically any rate without violating the conditions of exchange equilibrium. Moreover, if *everything* in England is non-transportable to America and *vice versa*, any rate of exchange between English houses and American theatres will be an equilibrium rate, not merely so far as these things are concerned, but absolutely. As between the Earth and Mars, for example, there cannot be any lapse from equilibrium, whatever the rate of interchange between *anything* on the Earth and claims to *anything* on Mars. Equilibrium, in short, is represented, not by a single point, but by a range of (in this case) unlimited length. If, however, any one thing flows in the course of trade between two places, equilibrium requires that a unit of that thing in the exporting country shall exchange against a claim to a single definite quantity of that thing in the other country; and, since the transportable thing must exchange at a definite rate against any other thing in each country, there must also be a single definite rate of exchange between any given thing in one of the two countries and claims to any given thing in the other. Thus, if lead is traded between England and America, so that an ounce of lead in England buys a claim to a definite quantity of lead in America, then, since houses in England exchange against a def-

inite quantity of lead in England and theatres in America exchange against a definite quantity of lead in America, the rate at which, in equilibrium, houses in England must exchange against a claim to theatres in America is definite and determined. Thus, let  $D$ ,  $S$ , and  $W$  be three commodities, of which  $W$  is, but  $D$  and  $S$  are not capable of being transported. In America one unit of  $W$  exchanges for  $p_d$  unit of  $D$ . In England one unit of  $W$  exchanges for  $p_s$  unit of  $S$ . Then, apart from discriminating monopoly, if no cost is involved in transferring  $W$  between England and America, it is necessary for equilibrium that one unit of  $W$  in America shall exchange for a claim to one unit of  $W$  in England. Hence, we have the equations:

$$\begin{aligned} 1 \text{ unit of } W \text{ in America} &= p_d \text{ units of } D \\ 1 \text{ unit of } W \text{ in England} &= p_s \text{ units of } S \\ 1 \text{ unit of } W \text{ in America} &= 1 \text{ unit of } W \text{ in England} \\ \therefore p_d \text{ units of } D &= p_s \text{ units of } S \end{aligned}$$

If one unit of  $W$  in America is worth a claim, not to one unit but to  $(1 + m)$  units of  $W$  in England, it is easily seen, by an extension of the above reasoning, that  $p_d$  units of  $D$  must exchange against  $(1 + m)p_s$  units of  $S$ . It follows that, since, in ordinary times *something* is practically certain to be flowing, either directly or indirectly, between England and America, equilibrium in respect of each several item, whether or not it itself is flowing, will be satisfied by one rate only.

5. This result is perfectly general, whatever the commodities involved are. Given the relative values of any  $W$  and any  $D$  in America, the relative values of this  $W$  and any  $S$  in England and the value of this  $W$  in America in terms of itself in England, it is always possible to deduce the equilibrium rate of exchange between  $D$  in America and  $S$  in England. When, therefore, we make  $D$  and  $S$  represent dollars and sterling,

we have not to do with something special and peculiar, but merely with one example of a large class of kindred phenomena. The result can be set out formally as follows. Adjustment being made for cases of discriminating monopoly, equilibrium requires that, if there is a commodity flowing freely without cost from England to America with sterling price  $p_s'$  and dollar price  $p_d'$ , the number of dollars ( $R$ ) that exchange for one £ sterling shall be  $\frac{p_s'}{p_d'}$ . If there is a commodity flowing

from England to America at such cost that  $m$  units of it are absorbed in the process of movement, and its dollar and sterling prices are  $p_s''$  and  $p_d''$ ,

$$R = (1 + m) \frac{p_s''}{p_d''}$$

If there is a commodity that is flowing in the opposite direction at a cost of movement represented by  $n$  units, and its dollar and sterling prices are  $p_s'''$  and  $p_d'''$ ,

$$R = (1 - n) \frac{p_s'''}{p_d'''}$$

If there is a commodity that is not flowing in either direction but the costs of movement are as above,  $R$  may, so far as the direct relations between money and that commodity are concerned, lie anywhere between

$$(1 + m) \frac{p_s''''}{p_d''''} \text{ and } (1 - n) \frac{p_s''''}{p_d''''}$$

But this does not mean that  $R$  is indeterminate; it is already determined, as  $p_s''''$  and  $p_d''''$  themselves are determined, by its relation with the prices of the things that do flow.

6. Before we proceed further it is important to make clear what precisely this exchange equilibrium, whose conditions we have been investigating, is. There is no equilibrium if (apart from discriminating monopoly) it



is possible, by buying dollars with sterling and then buying American goods with dollars, to obtain and to bring to England for sale there any single American good at a less sterling cost than that good could be bought for in England: and there is no equilibrium if, apart from discriminating monopoly, it is possible to send any single English good to America and make, by selling it there, a larger sterling profit than is obtainable by selling it in England. When either of these things is possible, there is a discord between exchange rates and relative price levels, which nature abhors and will endeavor strenuously to correct. When, however, neither of these things is possible, there is a sort of equilibrium — an equilibrium on the surface — which, for the purpose of this discussion, I call exchange equilibrium. But note precisely what this means. It means only that nobody can gain by diverting a unit of any kind of product, that might have been sold in the English market, to the American market, or *vice versa*. Suppose that by some "accident" a dollar comes to exchange for 20 per cent more sterling than it used normally to do. The immediate effect is that an English seller of, say, woollen cloth gets 20 per cent more sterling for sales in America than for sales in England. So long as this state of things goes on, there is no equilibrium of any sort. Exchange equilibrium will, however, be restored as soon as the extra export stimulated by better profit has raised sterling prices in England sufficiently to destroy the difference between the profit on foreign and that on home sales. This adjustment would in all ordinary circumstances take place fairly quickly. But the fact of its taking place gives no guarantee that *industrial equilibrium* has been restored. The woollen industry and other export industries in England may be left, as a result of the new conditions, in the enjoyment of ab-

normal profits on *both* their foreign *and* their home sales, relatively to the main body of English industry. Industrial equilibrium is wanting until this form of inequality also has been corrected. Moreover, even when industrial equilibrium, in the sense of a balance between export industries and other industries, has been restored, there may still be wanting that yet more fundamental equilibrium, under which the return to capital invested in industries in general does not differ very widely between different countries. This distinction between exchange equilibrium and other deeper forms of equilibrium has been somewhat obscured in recent discussions of "purchasing power parities." It should be clearly understood that exchange equilibrium does not imply (tho, of course, it is not incompatible with) any further equilibrium.

7. Let us now suppose that conditions are established under which exchange equilibrium between dollars and sterling is represented by a rate of \$4.86 to the pound; and let us consider in what way it may be possible for the position of equilibrium—or the norm of exchange—to be shifted to a different rate. It is important to notice that no such shifting is made necessary by a change in the relative values of the goods we import and the goods we export. It may happen for a variety of reasons that British stuff comes to be exchanged on better or on worse terms against American stuff. This implies a rise both in the sterling and in the dollar price of British stuff as compared with American stuff. But exchange equilibrium is only disturbed if the dollar price of something (that enters into trade) is altered as compared with the sterling price: and a relative movement in both the dollar and the sterling prices of different things does not involve that. Nor is exchange equilibrium directly affected even tho the sterling prices of

U.S. won't buy  
as much.

things that enter into international trade are shifted relatively to the dollar prices, provided that the shifting is only such as to correspond with alterations in transport or customs charges. In order that the norm of exchange may be moved it is necessary that the sterling and dollar prices of traded goods should alter relatively to one another, in such a way that, if the rate of exchange remained unaltered, there would be an opportunity for profit by diverting goods from the foreign market to the home market, or *vice versa*. This can only come about on any large scale through an alteration, in one of the two trading countries, in the *general* relation between money and things. Thus, all sterling prices would tend to be pushed up either by a diminution in the volume of things dealt in during the year, or by an increase in the volume of the currency, or by an increase, through improved banking methods and so on, in the efficiency of the currency. Such movements would call for a lower rate of exchange between sterling and dollars as a condition of exchange equilibrium.

8. As between two countries, in both of which there is an effective gold standard, it is not possible for the general relation between money and things to be altered in one of them to any large extent without a more or less corresponding alteration being induced in the other. The reason, of course, is that, if the value of gold falls in one of them in terms of things that enter into trade and does not fall in the other, it becomes profitable to export gold from the country of raised prices. As a result of the gold movements prices in that country are lowered again, and prices in the other country raised. This adjusting process renders it impossible for the new norm of exchange to diverge from the old one beyond the limits set by the export and

import specie points.<sup>1</sup> If, however, one of the two countries has an inconvertible paper currency the range of possible divergence is not limited in that way. The price level in one of the two countries is free to move relatively to that of the other to almost any extent, and the norm of exchange has a correspondingly wide range. Theoretical limits are fixed by the value which a country's (say England's) money substance, when demonetized, would have in American money and the value which America's money substance, when demonetized, would have in English money. Thus, Bradburys could not fall in terms of dollars to a value below that of the paper content of Bradburys *minus* the cost of carrying the paper to America. A limit of this character is, for practical purposes, equivalent to no limit at all.<sup>2</sup>

9. Our analysis must now be brought into relation with the doctrine of "purchasing power parities," which Professor Cassel's publications have made prominent. This doctrine, as enunciated by its author, contains two parts: one, as it were, positive and the other comparative.

The positive part of the doctrine may be set out in its

1. Before the war it was sometimes believed that equilibrium, as between two countries with effective gold standards, required, not merely a rate of exchange somewhere within the specie points, but a rate definitely corresponding to Mint par, that is to say, a rate such that an ounce of gold in one currency exchanged against a claim on an ounce of gold in the other. That is easily shown to be a delusion. For, suppose that neither gold nor silver flow between A and B. Then, if an ounce of gold in A will exchange against an ounce of gold in B, it is impossible that an ounce of silver in A should exchange against an ounce of silver in B, unless the value of gold in terms of silver in A is exactly the same as the value of gold in terms of silver in B, and it is obviously not necessary, or even likely, that this condition will be satisfied. Hence, if Mint par for gold gives exchange equilibrium, Mint par for silver will not; and money may be made equally well of the one as of the other of these metals.

2. For practical purposes, so far as *falls* in exchange are concerned, Bradburys may be regarded as inconvertible paper money. For, tho they are technically convertible into sovereigns, sovereigns may not be either melted or exported, with the result that the nexus between them and uncoined bullion, and, therefore, that between Bradburys and uncoined bullion, is destroyed. A Bradbury could not, however, rise in value above the gold content of the sovereign, because gold may still be freely imported, and the Bank, or, more strictly, the Mint must buy all gold offered to it at £3.17.9 per ounce.

author's words thus: "Our willingness to pay a certain price for foreign money must ultimately and essentially depend on the fact that this money has a purchasing power as against commodities and services in the foreign country. On the other hand, when we offer so and so much of our own money we offer in fact a purchasing power against commodities and services in our own country. Our valuation of a foreign money will, therefore, essentially depend on the relative purchasing power of the currencies of both countries."<sup>3</sup> If a pound will buy four times as much in England as a dollar will buy in America, purchasing power parity is attained when the rate of exchange between dollars and pounds is as four to one. This purchasing power parity "represents the true equilibrium of the exchanges. It is to this we have to refer when we wish to get an idea of the real value of the currencies, whose exchanges are subject to arbitrary and sometimes wild fluctuations."<sup>4</sup> In short, subject to the reservation that there are no "one-sided" obstacles to trade, that rate of exchange which makes the internal and external purchasing powers of sterling, as calculated by Professor Cassel, equal, is the equilibrium rate, or norm, of exchange.

The comparative part of the doctrine takes as a starting point some period in which exchange equilibrium is assumed to prevail. For this period we put the index number of American dollar prices and of English sterling prices both at 100. In both countries prices in any future year are expressed in numbers that bear to 100 the ratio that prices then bear to prices in the base period. The figure representing dollar prices is divided into the figure representing sterling prices. The quotient, multiplied by the rate of exchange that ruled

3. *The World's Monetary Problems*, p. 36.

4. *Ibid.*, p. 38.

in the base period, gives, according to Professor Cassel's comparative doctrine, the norm of exchange proper to the new year. In short, whereas the positive doctrine asserts that exchange will be in equilibrium at any time if the rate then ruling makes the external and internal purchasing powers of sterling equal, the comparative doctrine asserts that, if we start from a position of equilibrium and conditions alter, the consequent *change* in the norm of exchange will be proportionate to the *change* in the ratio between sterling and dollar prices. It is obvious that, if the positive doctrine is true, the comparative doctrine must be true also; but, if the positive doctrine is false, the comparative doctrine may, nevertheless, be true.

10. If it were the fact that all commodities produced in either of two countries flowed without cost between them, Professor Cassel's positive doctrine would follow immediately. But a large number of commodities not only fail to flow without cost but do not flow at all. There is no necessity, in order that exchange equilibrium may be established, for the internal purchasing power of sterling in respect of these commodities to be the same as its external purchasing power. A recent report of the United States Tariff Commission finds: "Such products as wheat, copper, and cotton have about the same gold price the world over, after due allowance is made for the cost of transportation and artificial restraints of trade. On the other hand, there are many commodities, such as articles of fashion or peculiar foodstuffs which rarely enter into international trade, whose prices are adjusted locally with little reference to the price of similar commodities in foreign countries. A third class of products occupies an intermediate stage with respect to international price adjustments. Examples of these are specialized textile

fabrics, aluminum ware, and highly wrought manufactured goods of various sorts." <sup>6</sup> There is no reason to expect that the prices of the various sorts of non-traded and partially-traded goods will bear the same ratio to the prices of traded goods in different countries. Consequently, there is no ground for assuming that, even in the absence of one-sided obstacles to trade, the rate of exchange which conforms to purchasing power parity, as defined by Professor Cassel, will be identical with, or even in the close neighborhood of, the equilibrium rate. The positive doctrine of purchasing power parities cannot, therefore, be maintained without reservations and qualifications so extensive as practically to destroy it.

11. Tho, however, Professor Cassel has formally asserted the positive doctrine, the general trend of his writings makes it clear that the comparative doctrine is the thing to which he really attaches importance. This doctrine is not open, except in comparatively slight degree, to the objection that has just been urged against the positive doctrine. It is true that, as between two periods that are being compared, the prices of non-traded goods in one country *may* have moved up or down relatively to the prices of traded goods, tho no corresponding movement has taken place in the other country. But there is no general ground for expecting that this sort of change will take place, at all events over short periods, on any large scale. On the other hand, in so far as price movements are brought about by currency causes, there is definite ground for expecting that traded and non-traded goods will move more or less parallel to one another. Hence, the inclusion of non-traded goods in Professor Cassel's calculations does not much impair the value of the calculations as

5. Depreciated Exchange and International Trade (U. S. Tariff Commission), p. 3.

indices of *changes* in the norm of exchange. The comparative doctrine of purchasing power parities thus passes the preliminary test, before which the positive doctrine broke down. Nobody would contend, however, that the indications it affords are more than approximate: and it is, therefore, desirable to distinguish, so far as may be, the principal ways in which, if followed uncritically, it is liable to mislead.

12. Professor Cassel has himself called attention to the consequences of introducing, between the base period and the period under investigation, one-sided obstacles to trade. These will not cause any appreciable change in the norm, or equilibrium rate, of exchange: but they will cause an appreciable change in purchasing power parity. Suppose, for example, that a tax is imposed on goods entering America from England, and no corresponding tax is imposed on goods entering England from America. English export goods will rise in price in America relatively to England, and no corresponding change will take place in American export goods. This means that dollar prices of goods in general in America rise relatively to sterling prices of goods in general in England: that is to say, the rate of exchange representing purchasing power parity is altered in the sense that a dollar is worth less stuff, as compared with sterling, than before. The same thing happens if export duties enhance the cost of sending English goods to America and there is no corresponding obstruction to the sending of American goods to England. The same thing happens again if a subsidy is accorded to cheapen American goods coming to England and there is nothing to balance it on the other side.

Professor Cassel implies that, if the obstacles imposed upon trade are two-sided, this shifting of the purchasing power parity, in the face of a steady norm of exchange,



will not take place. In certain circumstances that is true. If English export goods in America play the same part in determining the index number of general prices in America that American export goods in England play in determining the index number of general prices there, the imposition of similar import or export duties in the two countries may be expected to leave the ratio between the two index figures substantially unchanged. But the condition on which this result depends is not always satisfied. If, for example, the only English export good was coal and this exchanged abroad for a hundred different sorts of imports, all of which were reckoned as of equal weight with coal in both the English and the foreign index numbers used in our enquiries, a 10 per cent foreign tax on all exports *plus* a 10 per cent English tax on all exports would involve a much larger rise in the English than in the foreign index number, thus implying a shift in purchasing power parity. In like manner, if the imports of a country are of such a sort that transport charges play a large part in their value, while the exports are of such a sort that these charges play only a small part, a general rise in transport charges both ways will cause the index number of home prices to rise more than the index number of foreign prices, and so will bring about a change in purchasing power parity.

This reference to the technique of index numbers suggests yet another point. Imagine for a moment conditions such that changes in the ratio between the index numbers of sterling and of dollar prices would truly measure changes in the norm of exchange, *if* the index numbers were really based on the prices of all sorts of commodities. We have then to observe that the prices which enter into actual index numbers are not all prices, but a narrowly limited sample of them — a sample the

scope of which is determined by the existence or otherwise of price statistics accessible in, and comparable between, different periods. Any actual index number, therefore, is liable to "error," in the sense that the changes it indicates may be different from the changes that a complete index number would record. It is not possible to determine in any general way the magnitude of the error that should be reckoned with. But that it is substantial is shown by the large differences that emerge when different index numbers, among those now commonly employed, are used to make the same calculation. Thus, in August, 1920 as against 1913, American prices as calculated for the Bradstreet index number had risen 25 per cent more than American prices as calculated for the Bureau of Labour index number: and English prices as calculated for the Board of Trade index number had risen 9 per cent more than English prices as calculated for the *Statist* index number. Variations of this sort in different index numbers are, of course, carried over into the measures of change in purchasing power parity that are built on them. It follows that estimates of alterations in the norm of exchange, based on calculations of purchasing power parity, cannot, at best, be more than very rough approximations.

13. We have now to consider lapses from alignment between the actual rate of exchange and the norm of exchange — lapses, which under an effective gold standard cannot in general pass beyond the specie points, but under paper standards have no fixed limits. Such lapses may occur either because, the norm of exchange being given, the actual exchange rate has been twisted away from it, or, because, the actual exchange rate being established at the norm, conditions have come about which destroy that norm and establish a

new one. These two sorts of lapses have now to be described in turn. We may take first lapses due to a twisting of the actual rate of exchange away from an established norm.

At each moment there are certain debts falling due for immediate payment by Englishmen in dollars. These payments absolutely must be made somehow on pain of bankruptcy, so that, from the point of view of the moment, the English demand for dollars is always very inelastic; and the same thing applies (we may simplify the exposition by neglecting three-cornered trade and so forth) to the American demand for sterling. In these circumstances if the quantity of dollar bills on the market is not sufficient to enable English debtors to meet their obligations in America, some Englishmen with debts to pay will have to obtain command over dollars either by selling securities abroad, or by borrowing abroad, or by selling gold, or by selling the actual money of their own country (if this is not gold) abroad. The extent to which these expedients have to be relied on at any moment will be greater, the wider is the gap at that moment between the flow of debts and the flow of claims coming to maturity. It may be large, because, for example, a country's imports are being brought in now while her exports mainly take place at a later season, or because a past debt is falling due for payment, or because an installment of an indemnity that has not been fully prepared for is falling due, or for some more special reason. Given the extent of the gap between debts and claims that has to be filled at any moment, the extent to which the exchange will move against a country depends upon the difficulty and cost involved in obtaining command over dollars by the various expedients summarized above. Plainly, if gaps have been recurring continually for a long

period, the securities available for sale abroad, the credit that enables foreign loans to be raised and the stocks of exportable gold will have been more and more depleted, so that the difficulty of filling each successive gap is greater than the difficulty of filling the preceding one, and the exchange moves more and more against us. Similarly, if paper money has been sold abroad again and again to fill recurrent gaps, foreign speculators will reckon more and more on a continuing depreciation of this paper and their appetite for further purchases of it, except on extraordinarily favorable terms, will become sated. Consequently, so long as these gaps go on recurring the actual rate of exchange falls further and further below the current norm. If the government by decree bars resort to one or other of these expedients for obtaining dollars — if, for example, it bars the sale of securities abroad or the export of gold — the cost and difficulty of getting dollars will be increased and the exchange will be driven down still further.

Lapses from alignment between actual exchange and the norm of exchange due to an alteration of the norm itself *may* come about if an expansion of currency and credit in one country raises the general price level there while no corresponding movement takes place in other countries. In these circumstances the norm of exchange *must* be altered, and, consequently, alignment *must* be disturbed unless the actual rate of exchange is altered in the same act by direct process. It is sometimes asserted that the actual rate of exchange *cannot* be altered by direct process, but only through an expansion of imports and contraction of exports,<sup>6</sup> involving, incidentally, a purchase of goods by the country with the expanded currency in exchange for securities or loan scrip. It does not seem to me that this is necessary.

6. This view is suggested, tho with guarding phrases, in Mr. Keynes' *The Revision of the Treaty*, p. 93.

Suppose that, owing to an expansion of paper money, the English price level in sterling (gold export being prohibited) doubles. Then importers and exporters will both know that if American stuff is to exchange on the same real terms as before against English stuff — and there is no reason for anybody to accept different real terms — a dollar must buy twice as much sterling as before. In these circumstances both sides may be ready at once to accept these new terms without any mediating movement of trade. Foreseeing what must happen very shortly, if this mediating movement takes place, they may make it happen forthwith without the movement being called for. If they do not do this, there will be an alteration in the net ratio of interchange between the goods of the two countries, for which a new monetary change in one of them is not a sufficient cause. If they do do it, no question of the effect of a lapse from alignment can arise, because, owing to the synchronous movement of the norm of exchange and the actual rate of exchange, no lapse has occurred. In practice, however, I do not deny that lack of foresight on the part of traders will generally interfere with a perfect parallelism of movement, so that, as a matter of fact a currency expansion in one of the countries is likely to be responsible for *some* lapse from alignment.

14. Whenever there is a lapse from alignment, however caused, between the actual rate of exchange and the norm of exchange, there are automatically called into play corrective influences. The citizens of the country whose exchange is depreciated below the norm can make more profit by selling their goods abroad than at home, while foreigners, on the contrary, can make more profit by selling theirs in their own country than in the country of depreciated exchange. Hence, exports from that country will tend to increase and imports to

diminish, with the result that claims on dollars (in terms of which we are supposing the other exchange to have depreciated), come to be created at a greater rate relatively to debts in dollars than was happening before. If, hitherto, a country, whose exchange has become depreciated below the norm, has been obtaining goods abroad by borrowing, it is discouraged from doing this any longer: if, hitherto, trade has been balanced, it is impelled to sell goods abroad against securities or promises to pay. These processes continue until alignment is restored, and a new equilibrium is established under which, very probably, the relative values of import and export goods in both countries are somewhat different from what they were before. Conditions are, indeed, conceivable in which the corrective influences would not work. We can imagine a country the demand for whose goods abroad is so inelastic that an enlarged export of them would yield a smaller, and not a larger, claim to dollars. If that country had no imports available for reduction, but the whole of its foreign trade consisted, for example, of exports sent out to purchase the means of paying an annual dollar indemnity, the fall in exchange would not set forces in motion to close the gap of future indebtedness. But these abnormal conditions are exceedingly unlikely to be realized. In general—the glaring exceptions of the moment need not be particularized—the fall of actual exchange rates below the norm is not only a *sign* that trade is out of balance, but also an effective agency for bringing it back to balance.

15. The period during and since the war has afforded many examples of action taken by governments with the object of interfering with and modifying the working of this agency. Among these examples we may distinguish between (1) action designed to reduce the gap of immediate indebtedness, which is responsible for

making exchange fall below the norm, and (2) action designed to prevent the corrective influences, which a fall below the norm, when it has taken place, sets in motion, from operating along certain routes, or, possibly, from operating at all. These two sorts of action have now to be studied in turn.

Action designed to reduce the gap of immediate indebtedness by direct process embraces prohibitions against the export of capital, that is, against the turning of resources, which might have been used to pay for imports, into foreign investments, and prohibitions against the import of luxuries. The object of these devices is so secure that the gap of indebtedness, which would otherwise be closed *eventually* by blind forces, shall be closed *immediately*, or at all events as soon as possible, by a force that is intelligent and can perceive differences in social advantage where money profits are the same. The technique of these devices is described at length in the volume of the League of Nations papers, prepared for the Brussels Financial Conference, entitled *Exchange Control*. The most obvious devices are direct prohibitions against certain classes of imports and against the export of capital generally. But, as a rule, it is also found necessary to adopt other measures with a view to preventing evasion of these prohibitions. Thus, exporters of goods or securities are compelled to hand over the proceeds of their sales in foreign currency to a central exchange institution, which, in turn, sells exchange to importers of permitted imports. Unless some arrangement of this kind is made, it is impossible to insure that the proceeds of export or security sales will not, in one way or another, come to be invested abroad. It should be observed that, while a policy of stopping the export of capital *must*, if successful, improve the current, tho not necessarily the ultimate, trade balance, a policy of

restricting imports *may*, in conceivable, tho improbable, conditions, defeat itself, by causing resources to be withdrawn from the manufacture of export goods, in order to make substitutes for the extruded imports, to such an extent that the export side of the trade balance is lowered more than the import side. Apart from this, however, government action of the above types should prove *pro tanto* effective in bringing the actual rate of exchange nearer to the current norm.

Action designed to obstruct the operation of the corrective influences which a fall in exchange below the norm sets in motion, sometimes takes the form of governmental prohibition against the export of certain things which their owners would be tempted to send abroad under the influence of the low exchange, and the sending of which would help to fill up the gap of immediate indebtedness. Thus, many countries, fearing the exhaustion of their stocks, have prohibited the export of gold; and certain countries, with exchange rates much below the norm, have prohibited the export of certain necessary goods. The idea behind these prohibitions is that there are certain things the loss of which would constitute so great a social disaster that it is impossible in any circumstances to sacrifice them. Thus, apart from export prohibitions, Germany was threatened with a selling-out of essential instruments and materials of her industries, of which the end must have been ruin and starvation. It was imperative to hold firmly to these things. To do so, however, necessarily meant a still further depreciation of the mark exchange below the current norm, and, therewith, a further lowering of the real price at which those German goods that it was still permissible to export sold against foreign goods.

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CAMBRIDGE, ENGLAND.



## THE BRITISH BUILDING GUILDS: A CRITICAL SURVEY OF TWO YEARS' WORK<sup>1</sup>

### SUMMARY

Social and industrial background; structure of the guilds, 80. — Distribution of function and control, 85. — Guild principles: "organized public service," the Guild form of contract, Guild workmanship, workers' control, continuous pay and remuneration, 90. — Credit, finance, and insurance; relations with the C. W. S.; the Guild's financial record, 100. — Experience of the guilds: competitive tendering; the Guild's challenge; continuous pay costs; comparative labor efficiency; building costs on Guild contracts; the quality of Guild workmanship; Guild discipline and employment management; progress of the Guild movement, 106. — Conclusions: as to the building guilds; as to Guild Socialism in general, 127.

WHATEVER may be the final verdict as to the work of the building guilds of Great Britain, there can be no doubt but that this novel experiment in Guild Socialism was undertaken on a scale sufficiently large and under circumstances sufficiently favorable to justify some verdict. The National Building Guild, Ltd.,<sup>2</sup> probably represents the largest single building concern in England today. It comprises in its organization over 140 local guild committees throughout the country,<sup>3</sup> employs

1. This article contains the substance of an investigation undertaken by the author for Professor Graham Wallas during the academic year 1921-22. Much of the field work was accomplished in March and April of this year and was confined to guild projects in the vicinity of London. The author wishes to make acknowledgment of the aid which he received at all times with the greatest readiness from Guild officials, Guild workers, chairmen of housing committees, and the engineers, surveyors, and architects of the various town and district councils referred to. In particular he wishes to thank Mr. Malcolm Sparkes, secretary of the London Guild, and Mr. Ernest Selley for valuable information and suggestions which they offered him in pursuing his investigation.

2. An amalgamation of the earlier Guild of Builders (London), Ltd., and the Building Guild, Ltd., of Manchester. The resolution of amalgamation was adopted at Manchester, July 23, 1921.

3. Only about half of these are active. "The rest," to use the words of Mr. S. G. Hobson, "are dormant through failure to secure public contracts . . . but they can be called into life and activity at a moment's notice."

about 6000 operatives — a number constituting between 1 and 2 per cent of the total building trades union membership<sup>4</sup> — has contracts on hand totaling approximately £2,500,000, owns plant and equipment in London alone valued at more than £20,000, and has to its credit about 1200 houses completed for local authorities at an estimated cost of £1,000,000. When a movement has assumed these proportions, its success or failure may be taken as significant in reflecting the soundness or fallaciousness of the theories which so far have animated its work.

The building guilds had a favorable start perhaps unique in the annals of communist and socialist experiments, certainly never to be duplicated in a nation's history. In the years prior to the war it was estimated that from 80,000 to 100,000 new houses were required each year to meet the normal needs of the working-class population. Up until about five years before the war this annual increment of houses was forthcoming, subject, however, to increasingly severe financial burdens and technical restrictions.<sup>5</sup> The costs of building materials were advancing rapidly, efficiency of labor had fallen to a low ebb, the technical organization of building operations was defective, and, finally, owing in great measure to certain duties imposed under the Finance Act of 1909-10, investments in speculative building enterprises were rendered almost devoid of profit. Capital as a consequence shifted to other types of construction work and employers refused to hire

4. Mr. Sparkes estimates the total building trades union membership as comprising about 50 per cent of all the workers in the industry. Organized labor in the building trades has lost considerable ground in the last thirty years, chiefly owing to numerous local and sectional disputes with the employers. Indeed, it was not until the formation of the N. F. B. T. O. in 1918 that the various craft unions could present a really united front in their struggle with the master builders. Cf. Webb, *History of Trade Unionism* (1920 ed.), pp. 481-483.

5. The average number of houses built each year during the period 1900-10 has been estimated at 80,000. Cf. H. R. Aldridge, *Housing at the Close of the War*, p. 3.

union labor except at terms which, considering the conditions of employment, were highly disadvantageous to the workers. A long series of strikes and almost continuous depression in the building industry were the result. The outbreak of the war found the employers and the operatives at grips on the issue of the closed shop, and a shortage of housing accommodation throughout the United Kingdom estimated by Mr. Lloyd George, then Chancellor of the Exchequer, at from 100,000 to 120,000 houses.

Four and a half years of war served only to aggravate these conditions. Building operations, excepting those directly connected with war needs, came virtually to a standstill. Altho a considerable number of houses were being built for workers in the munitions areas, these did not promise to alleviate to any great extent the housing shortage already existing. It was, therefore, inevitable that Great Britain should emerge from the war with a housing shortage exceeding half a million houses, and it was also inevitable that this shortage would never be met by the unaided efforts of private enterprise. The cost of building operations had become almost prohibitive. Many instances of alleged profiteering in the production of building materials came to light. In September, 1920, the Housing Department estimated that the cost of labor and materials required for the erection of working-class dwellings in the spring of 1920 was approximately 170 per cent higher than in 1914. It speedily became evident that large sections of the working-class population would be unable to pay an "economic rent," that is, a rental which would be considered a fair return on the capital invested, on houses constructed at the terms then prevailing.<sup>6</sup> If houses

6. Before the war the "economic" rent of a working-class dwelling usually amounted to about £20 per annum.

were to be provided for them at a reasonable rental, they would have to be provided at a loss which either the state or the local authorities must assume. To add to these difficulties, the efficiency of labor had sunk to a new low level and an acute labor shortage was threatened in the building industry owing to the withdrawal, in one way or another, of more than 200,000 of its able-bodied skilled workers.

Towards a solution of these difficulties the government in 1919, through the agency of its newly created Ministry of Health, inaugurated a housing program of unprecedented dimensions. By the Housing and Town Planning Act and the Housing (Additional Powers) Act of July and December, 1919, the Ministry of Health was empowered to require local authorities to undertake housing enterprises adequate to meet their needs, and was provided with funds out of which 75 per cent of the difference between the "economic rent" of the houses and what would be deemed a reasonable rental to the workers who were to occupy them, was to be paid to the local authority over a specified period of years.<sup>7</sup> All contracts accepted by the local authorities had first to be approved by the Ministry of Health, which had the power, if it found the estimates excessive, either to reduce them or to cancel the contract altogether, both of which it did in a great many cases. Detailed statements of costs on all houses constructed for the local authorities had also to be returned to the Ministry of Health from time to time. It was in this way that the writer was able to secure, through the kindness of local officials, the statements on building costs that are contained in this article.

7. The financial obligations of the local authorities consisted in most cases of the initial cost of erection, covered by the issue of short-term securities at 6 per cent per annum and a levy of one penny in the pound toward the yearly loss incurred by the renting of houses at less than their "economic" return.

Regarded as an experiment in social reform, as yet in its early stages, the building guilds must be examined in the light of the circumstances which have been set forth above. The unprecedented housing shortage, followed by the government's program for the erection of nearly half a million workmen's dwellings, undoubtedly afforded the guilds an opportunity for putting into practice their theories on a scale and under conditions which in normal times would have been impossible. No insurgence into the domain of private enterprise, however brave and well-conducted, would have secured for the guilds the volume of building undertakings which they now have in hand. The conditions of competition and of finance would have been greatly altered. It is in the ability of the guilds to obtain and carry out work satisfactorily for private parties that will be found their true and lasting worth to the community, and this work so far constitutes but a small proportion of the Guild's undertakings.<sup>8</sup> Moreover, it must be remembered that the guilds in competing with the private employer in the building industry of Great Britain are in many ways competing with private enterprise at its worst.<sup>9</sup> In other industries where the stimulating effect of foreign competition has made itself felt, it is doubtful whether the guilds could have made as good a showing as they have in the building of workmen's houses. Certain it is that England as a nation could never survive if the efficiency of labor in all her industries were on a level

8. The value of private contracts now in hand probably does not exceed £100,000 — about 4 per cent of the Guild's total undertakings. The Guild has been fortunate, however, in having had more than 10 per cent of its estimates for private work accepted, which is doing well for any building concern.

9. The term "private enterprise," altho used in this article to contradistinguish individual or corporate enterprise from Guild enterprise, is not one to commend itself to general use. There is on the face of it no more reason why an air-tight monopoly such as the guilds propose should be deemed any more public, or less private, than the competition of a number of individual employers who obtain work, not by threat or compulsion, but under a voluntary contract and solely on the basis of superior quality or lower cost of workmanship.

with that prevailing in the building industry in the years following the war.

It was against this setting that the guilds made their first appearance at Manchester in January, 1920, and began operations simultaneously at Manchester and London in October of the same year.

A study of the structure of the guilds is essential to an understanding of what is probably their most difficult problem at the present time, namely, the distribution of industrial control. The fundamental unit in building guild organization is the local guild committee, ordinarily composed of one or two, but not more than two, representatives from each trade union connected with the building industry. Each craft is thus assured an equal voice in the activities and transactions of the committee. In addition to this, one elected representative from any approved group of building trade workers, whether administrative, technical, or operative, may sit upon the committee with the right to take part in its decisions. In London this "approved group" consists of architects and surveyors connected with the regional board, and ordinarily they elect their own representatives to serve on the local committees and also on the London Board. All members of the guild committee serve for one year and are eligible for reelection, altho the right of recall is always reserved and the electing body may withdraw their representative at any time and under any circumstances, as they may see fit.<sup>1</sup> The London Guild, owing to the wide extent of the metropolitan area, has evolved a supplemental type of local organization known as the area committee, which is

1. Each trade union or approved group adopts its own methods of election. In the case of the unions this was at first done by vote of the management committees, but this has gradually given way to a democratic vote of the members. The members of each union thus have direct control over their representative on the local guild committee.

usually composed of one representative from each of the guild committees in a designated area or district. In some cases, as at Walthamstow, where the work in hand is centered mainly in a single locality, the area committee may take direct representation from the local trade unions, thus omitting the intermediate stage. These and other anomalies in the Guild structure are now being overhauled, and it is expected that in the future the constituent committees of the London Guild will probably number something like four.

An extra-constitutional development in the local building guild organization is the works committee, usually set up in connection with each contract of any considerable size. The composition of this committee varies among the different guilds, but in most cases it consists of one or two representatives from each craft at work on a job, elected by the men on the site, each man voting for his own craft. At Walthamstow and Greenwich the works committees are represented on the area committees by means of coöpted members elected by the men at work on the housing schemes. Altho the works committee is not recognized in the constitution as a unit of the building guild organization, it is certainly an element to be reckoned with, and an attempt at defining more exactly its status and functions may be looked for in the near future.

Serving to unify and coördinate the work of the guild committees in any one region — the "region" in question usually corresponding to the regional areas of the N. F. B. T. O. — is the regional council or board. Originally the London Guild and the Manchester Guild were the only two regional organizations, all committees outside the London area being affiliated to the latter, but on July 23, 1921, the two societies were amalgamated and a national organization was created in

which they were but two out of eight other regional councils. As provided in the constitution, the regional council is constituted of not less than ten guild committees, each committee electing one representative to serve three years, at the end of which time he is eligible for reëlection.<sup>2</sup> It is also provided that each regional council, to secure equitable craft, administrative, and technical representation, may coöpt additional members to a number not exceeding one-fourth of its total membership. Aside from these provisions, however, certain distinctive features mark the organization of each of the regional councils. The London Board, for example, is composed of nine members representing the area committees formed in different parts of London, eleven members representing the several craft unions affiliated to the N. F. B. T. O.,<sup>3</sup> one representative of an "approved group" of architects and surveyors, one representative from the Electrical Trades Union, and one from the National Union of Clerks. No one holding a managerial position may have a vote on the Board, altho the Guild officers are invariably present at its meetings and may influence its proceedings in a manner to be described. These elected representatives are the members of the regional board, and the whole board constitutes, or until April 1, 1922 did constitute, the industrial society, as registered under the Industrial and Provident Societies Acts. Each member on election takes up a one-shilling share in the society and becomes nominally, that is to say, legally, one of its directors. His office as director, however, carries with it no permanency of

2. In districts where area committees have been formed, one representative from each area is appointed by the committee to serve on the regional council, subject to the consent of all the guild committees in the region.

3. These are elected by the management committees of the unions. The London Guild is the only one that permits this heavy representation of trade unions on the regional board, and Mr. Sparkes informs the writer that the matter is now being reconsidered.



tenure, for upon election he must sign an open transfer form which is deposited with his electors and by virtue of which he may at any time be required to transfer his share to whomever they may appoint to succeed him. These shares, it should be remarked, are not to be regarded as the Guild's "capital" — whether as liability or asset — for they are purely a fiction designed to satisfy legal requirements.<sup>4</sup>

At the close of the guilds' fiscal year ending March 31, 1922, the Guild of Builders (London), Ltd., and the Building Guild, Ltd., transferred all their engagements, financial and otherwise, to the National Building Guild, Ltd., which has now become the legal entity for signing contracts, arranging credit, organizing finance, and in general assuming the legal liabilities involved in the business.<sup>5</sup> The governing body of the National Building Guild is the National Board, so-called, composed of one representative from each regional council who is nominated and elected by the guild committees in that region.<sup>6</sup> Members of the National Board are elected for three years, and are subject to recall at any time by a joint decision of the regional council and guild committees concerned, altho such a decision must be by a two-thirds majority. No representation on the National Board is now given to the trade unions as such, but it is likely that in the future both the N. F. B. T. O. and certain "approved groups" of technicians and others will be given representation, since it will be essen-

4. The writer encountered one local official who was thoroly convinced that the guilds could not succeed. On being asked for his reasons, he pointed to the London Guild's balance sheet for the year ending March 31, 1921, and said: "Why, don't you see, they've only got 19 shillings capital! No building concern can succeed without capital." So it was: "Share Capital — 19 shares at 1s., fully paid — 19 shillings."

5. A scheme of reorganization is now being considered, under which each of the ten regional councils would become a separate legal entity for carrying on these functions.

6. Each representative on the National Board must be a member of the regional council which he represents, but he is elected by and must have the support of the local bodies in his region.

tial for some time to come that the guilds and the unions work in the closest possible coöperation. Like the Building Guild of Manchester, the National Building Guild is registered under the Companies Acts, and members of the National Board are "directors" in name only, being required upon their election to sign open transfer forms by virtue of which they may be recalled from office at any time.

Before turning to a consideration of the distribution of function and control under the guilds an additional feature of the Guild structure must claim our attention — that relating to the administrative side of the organization. At the head of each local committee are a chairman and secretary, whose duties are mostly of a routine sort, altho the secretary is generally considered the administrative officer of the committee and acts as mediator between the general foreman and the committee members. Supervising the work on each contract is the general foreman, nominated by the trade unions and appointed by the local area committee, subject to the approval of the regional board. Under him and in charge of the work on each operation are a number of departmental foremen, who are recommended for the office by the management committees of the trade unions concerned, and are appointed by the guild committee. None of the foremen are allowed to sit on the local committee, but may and usually do attend its meetings in an advisory capacity. They may be removed from office at any time by vote of the guild committee, altho resort to this expedient has not yet been necessary. Most significant of all is the stipulation that none of the foremen, whether general or departmental, are nominated or appointed by the men at work on the site. This may not be "industrial democracy" in all its purity, but it is a provision which has proved indispen-

sable to the continued maintenance of industrial efficiency. The officers of the regional board, or heads of departments, usually include a secretary, an accountant, and a surveyor; in London the additional office of "building organizer" has been created. The board appoints its own officers, selecting them from applications sent in by suitable candidates. The architects constitute a group by themselves and usually elect to serve in rotation, except in cases where special qualifications are required.

The outstanding feature of the Guild distribution of control is local autonomy. Altho the National Board under the recent amalgamation becomes the legal entity for the signing and execution of contracts, the local guild committee is responsible under the constitution for carrying out all contracts signed on its behalf.<sup>7</sup> It appoints its own foremen, general and departmental, and fixes their salaries; it controls its own bank account, drawing and signing checks for wages, materials, and other purposes; it may purchase its own materials, but on request must forward duplicate copies of all orders to the national board or regional council. Beyond its powers of appointment and of recommendation, however, the guild committee has little to do with the actual work of management, which is entrusted to the various administrative officers appointed for the purpose. Altho the committee controls its own bank account, it must not pledge the credit either of the regional council or the National Board without their consent. The guild committee must agree to coöperate, both in policy and detail, with the National Board, and it is specifically set forth in the constitution that "no action, rules, or

7. It should be here explained that the local guild committee, as such, cannot become a legal entity, being exclusively a trade-union organisation.

regulations of the guild committee shall be valid, if such action, rules, or regulations shall preclude or hinder the development of the National Building Guild."<sup>8</sup> Representations made by the National Board through its properly accredited officers must be acted upon by the committee, subject, however, to appeal or arbitration.<sup>9</sup> It is also the duty of the committee to organize social functions, encourage good fellowship, and spread Guild ideas by propaganda and example.<sup>1</sup>

The regional council, altho no longer a legal entity, has full power to enter into negotiations with local authorities and others for obtaining contracts, subject to the consent of the guild committees concerned and subject to the assent of the National Board as to finance and credit. It is expressly understood that the regional council must not pledge the credit of the latter body without its consent. The council maintains its own overdraft and bank account, but all moneys payable to the Guild are first sent to the head office at Manchester and then distributed as required to the regional councils and local committees. In London the reserve funds for continuous pay are still under the control of the regional council, altho by the terms of the recent amalgamation this is properly the function of the National Board.

The National Board is the sole legal entity at the present time for the purpose of signing contracts, arranging credit, organizing finance, and in general assuming the legal liabilities involved in the business. It has full control of credit, finance, supply, insurance, and policy. It administers the central reserve funds for continuous pay, technical research, and insurance, and its credit is the only credit in the legal sense that the guilds

8. Constitution of the National Building Guild, Article 16.

9. *Ibid.*, Article 11.

1. *Ibid.*, Article 15.

possess at the present time. The National Board may, on occasion, coördinate the activities of the regional councils and guild committees in the use of plant and equipment and in the purchase, manufacture, and supply of building materials. As to general questions of policy and finance, the National Board, being the legal entity, must necessarily have the final word, but in the event of a serious disagreement, the question would probably be referred to a national conference of delegates from all the guild committees in Great Britain which meets once a year. It is likely that under the scheme of reorganization now being considered a considerable decentralization in the powers of the National Board with respect to questions of finance and policy will take place.

The function of management rests with the administrative officers, that is to say, with the general and departmental foremen, the heads of departments, and such other officers as the regional council or guild committee may appoint. In the London Guild the function of the regional secretary is to open up new business for the Guild, to conduct its general administration, and to organize its publicity, while the actual conduct of building operations is left with the "building organizer," who issues estimates and superintends the work of the local guild committees. Cost and other accounting is the work of the accountant on the regional council, who works in close coöperation with the general foremen and others in charge of building operations. The hiring and discharge of workers is the function of the general foreman, who may be required in case of discharge to inform the secretary of the guild committee of such action, and the reasons for dismissal. As before remarked, no one holding an administrative position may have a vote on either the guild committee or the re-

gional board. They invariably attend the meetings, however, and may have their way if they can carry conviction by a reasoned statement of their views. This rule has been found to work exceedingly well, and it is very seldom that the policies of the guilds go astray through disregard of the administrative officers' recommendations. An interesting development at Walthamstow is a monthly conference of departmental foremen under the chairmanship of the area committee's representative on the London Board, himself an operative bricklayer, to discuss methods and improvements in technique. Technical matters are never referred directly to the rank and file, whether by formal referendum or otherwise, for their decision; but at London an unofficial organization known as the area conference has grown up, whose purpose is to bring the rank and file into closer touch with administrative problems. This is a monthly meeting of delegates from all the area committees, and matters of Guild policy are frequently referred to it from the London Board for discussion and settlement. At Manchester an organization of somewhat similar purpose, the Operatives' Main Committee, has been created, designed to bring the rank and file into close contact with administrative problems, even to the extent of exercising control.

For all this, however, the function of management is not under the direct control of the rank and file. Heads of departments are appointed by the regional board and are responsible to it alone for their conduct in office. General and departmental foremen are appointed by the guild committee, and are responsible chiefly to it, altho the latter are dependent to a considerable extent on the support of their own trade unions. Members of the Board are at least two removes from the rank and file, and members of the guild committee are at one

remove, so that it is difficult in most cases for the rank and file to secure the removal of an administrative officer so long as he has the support of his guild committee or the regional council. This has seemed to the writer in the highest degree providential, so far as the guilds were concerned. Nevertheless, there has crept into the relations of the management and the workers a feeling somewhat akin to that prevailing in private industry between employer and employees, unjustifiable tho it may be. Petty jealousies among the men, a vague idea that management, except in the case of functions exercised by the departmental foreman, could be dispensed with, and some resentment at the manner in which administrative officers are appointed, have undoubtedly lent weight to the growing movement among the rank and file in favor of extending the functions of works committees to include that of actual management.

At present there is no standard definition of the status and functions of the works committee within the building guild organization. On practically every Guild contract of any considerable size works committees have been formed, and they are certain to be retained as an integral part of the Guild organization of the future. Sentiment among the guildsmen, however, seems to be divided as to whether their functions should be curtailed or extended, and the line of division, curiously enough, follows closely that between the management and the rank and file. Recently in the *Building Guildsman*, a monthly journal issued by the guilds and devoted to topics of current interest, an attempt was made to sound the opinion of the guildsmen on this point, and some extremely interesting replies were received. The attitude taken by the Guild officials seemed to be that the function of management was best entrusted to the

guild committee through its representatives, the general and departmental foremen, leaving to the works committee the work of administering the canteen, inspecting trade union cards, looking after the general welfare of the workers, and investigating grievances that arise on the sites from time to time. It was particularly emphasized that needless duplication in carrying on the work of the guilds was to be avoided, and it was asserted that the demand for an extension of the works committee's powers was a tendency in this direction. The operatives retorted with some rather vigorous replies,<sup>2</sup> the consensus of which seemed to be that the works committee should have a definite and active representation on the guild committee, should receive all complaints and suggestions relating to the job, should hear all appeals against discharge with power to reinstate, subject to the approval of the guild committee, and should recommend to the committee any alterations in the existing working conditions which, in its opinion, would promote the satisfactory completion of the contract. This question has yet to be finally settled, but the guilds have already had considerable experience with the functioning of works committees, and this experience seems on the whole to vindicate the attitude taken by the management.

The watchword of the building guilds is "industry organized for service," and whatever else may be said for or against the guilds, it must be admitted that they have been conscientious in the pursuit of this aim. Under no circumstances are surplus earnings devoted to

2. The following from the Glasgow District Workers' Committee is typical: "The Glasgow District Workers' Committee flatly refuse to accept any such position, and will not be satisfied with the far-off hope that 'ultimately' it 'may' take an important part in the Guild movement. 'Live, old horse, and you'll get corn,' is ever on the tongues of the timid who attempt to buy off present difficulties with future promises. The Guild workers live in the present, and insist in sharing the responsible managerial work of the Guild now." *The Building Guildman*, February, 1922, p. 42.



the payment of dividends, one sufficient reason being that there are no shares on which dividends can be paid, and workers receive no more above the standard rate than is necessary to provide for them "continuous pay" at the terms presently to be described. In this respect the guilds differ radically from coöperative enterprises, in that the aim of the latter is not to give service — except to their own members — but to get it, and get it at a reduced cost. Any surplus earned by the guilds through savings on estimates is devoted entirely to the improvement of the service, by providing for increased equipment, for reserve and working capital, for technical training and research, and for the elimination of hired capital. The guilds are today in urgent need of working capital, but they have already undertaken to increase their equipment by the erection of a joinery works at Paddington, and practically every penny raised in subscriptions to the Guild loan of £150,000 has so far gone into the building of this new plant and the installation of machinery.

The Guild form of contract admirably illustrates the sound practical basis upon which the guilds have founded their ideal of "organized public service." Under the agreement with the Ministry of Health the Guild undertakes, in conjunction with the Coöperative Wholesale Society as to finance and insurance, to build houses for local authorities on a no-profit basis, the latter to pay the actual costs of building plus a fixed fee for continuous pay to the workers. Any savings effected on the original estimates are returned intact to the local authorities, and this has meant in most cases a saving of thousands of pounds to local bodies in carrying out their housing schemes.<sup>3</sup> Toward the expenses of plant

3. At Bournemouth the saving effected on the contract price was converted by the Guild into two additional houses and presented to the town.

and maintenance, and establishment charges, including the salaries of buyers, head office expenses, and salaries of supervising staff, the Guild receives 6 per cent on the *actual* cost if this proves to be less than the *estimated* cost, but only 6 per cent on the *estimated* cost if the *actual* cost should prove to be greater. This is virtually a sliding-scale agreement, under which the Guild penalizes itself for any excess of the actual over the estimated cost, altho it is stipulated that any increase in costs due to higher rates of wages, but not to higher costs of materials, shall be included in reckoning the amount under the Guild under the 6 per cent clause. Increases in both material and labor costs, however, are to be allowed for in determining whether the Guild is carrying out its contract satisfactorily, and in the contrary event the local authority may break the contract at any time after three months from the commencement of the work. This "break" clause, as it is called, has never been invoked by any local authority for whom the Guild has done work. Finally, the Guild receives, as has already been mentioned, a fixed fee of £40 on each completed house to provide "continuous pay" for the workers, that is to say, payment for time lost whether through sickness, accident, bad weather, or holidays, and it is expressly agreed that any surplus arising under this or any other head shall be devoted to the improvement of the service.

A number of building trades employers have criticized this provision for a completion fee of £40, declaring that it is nothing less than a "subsidy" offered by the Ministry of Health to forward the work of the guilds and drive the private employers out of business. Mr. Stephen Easten, formerly president of the National Federation of Building Trades Employers, created a sensation when, in January, 1921, he suddenly resigned

his position as honorary director of production under the Ministry of Health, giving as his reason that he would no longer countenance the preferential treatment that was being accorded the guilds by the Ministry in its agreement to pay them a fee of £40 on each completed house, regardless of whether the actual cost was greater or less than the contract price. Earlier in his term of service under the Ministry, the Guild proposition had been submitted to him and he had promptly vetoed it, believing that an organization of trade-union workers without previous experience or working capital was not in a position to carry out contracts satisfactorily for the government. The Ministry of Health, however, concluded an agreement with the guilds over his head and he thereupon resigned. Soon afterwards in a public statement<sup>4</sup> he declared that the completion fee paid to the guilds by the Ministry was unfair, in that while the private contractor received £40 profit per house if the estimates were not exceeded, and had to lose, if the estimates were exceeded, 20 per cent of the difference up to £20, the Guild was assured of its £40 per house whether the actual cost was less than, equal to, or greater than the estimated cost.<sup>5</sup> At first sight this does seem, as alleged by Mr. Easten, a case of preferential treatment, but the guilds have contended that what the private employer regards as "profit" is not to be confused with what the guilds regard as "costs." In the first place, they say, since all tenders for housing con-

4. Cf. *The Builder*, January 21, 1921, p. 105.

5. Mr. Easten has also criticized the Guild contract on the ground that the 6 per cent allowance for establishment charges, plant, and maintenance, is excessive and furnishes another instance of preferential treatment on the part of the Ministry of Health. The private contractor receives 1½ per cent for establishment charges, £7 per house for light plant, and 2 per cent per month for heavy plant — the last two of which items are estimated by Mr. Easten to be equal to about 1½ per cent on the contract price. All maintenance is charged up under the contract, so that the guilds are apparently receiving twice as much as the private contractor for plant, maintenance, and establishment charges. This has nothing to do with savings on estimates, which are calculated on the basic price, and are not favorably or otherwise affected by the 6 per cent allowance.

tracts are on a competitive basis, the Guild obviously would get no contracts at all unless its basic estimates, including the 6 per cent charge for establishment expenses, were substantially below those of private contractors. Secondly, even if it is true that the Guild, owing to its policy of continuous pay, is able to make reductions in its estimates of labor costs, this is solely on the expectation that workers in its employ will thereby be moved to render more efficient service than they would otherwise, so that it is only just that the completion fee of £40 should be regarded as part of their "costs" and so be immune from the penalties that ordinarily attach to the private builder's profit.

An obvious answer to this is, of course, that the guilds' cause would not be greatly damaged if, disregarding the ethical niceties involved, the fee for continuous pay were put upon the same basis as the employer's profit, for if the estimates were exceeded, the policy of continuous pay would have failed of its purpose, and no injustice would be done the workers in depriving them of pay for holidays, bad weather, sickness, and accident, which they had neither earned nor deserved. The guilds have nowhere, to the writer's knowledge, satisfactorily met Mr. Easten's objections on this point, altho they were not originally stated in just this manner. In any case, the discrimination in question could hardly be described as "unfair," for if the guilds have not been held liable for building in excess of estimates, they have not, as the employer has, received the benefits of any definite share in the savings they have effected on estimates, and this, as events have proved, would have been a far more significant item in their profit and loss account at the present time. Moreover, it is highly probable that the criticism of Mr. Easten and others is actuated at bottom by the knowl-

edge that what the Guild receives in lieu of the private builder's "profit" can be devoted entirely to raising the wages of its workers, and so enabling it to compete on favorable terms with the private contractor on the basis of an increased efficiency of labor. While the building guilds were in an experimental stage, it was perhaps justifiable to claim that the same treatment should be accorded them as was accorded the private contractor in respect of the completion fee of £40, but in any case they have vindicated the faith that was put in them and whatever their workers have received in continuous pay they have earned and deserved. Whether the Coöperative Wholesale Society, without the security of a fixed completion fee, would have been so willing to extend to the guilds its facilities of credit and insurance is problematical, but it is not a matter which need concern us here.

On private work the guilds have instituted what is known as the "maximum sum" form of contract, under which the customer takes absolutely no risk of having to pay more than the estimated cost, for the Guild guarantees that the price charged will not exceed a certain maximum sum, whatever the actual cost may be. If the actual cost proves to be less than the estimate, at least 50 per cent of the saving so effected is returned to the customer, and from 10 to 50 per cent of the remainder is retained by the Guild and placed in a contingency fund, to provide insurance against future possible loss under this head. Apart from the housing schemes now under construction, practically all of the Guild work in the future will be under the maximum sum form of contract, and it is still to be seen whether this novel attempt to express in concrete terms the ideal of "organized public service" will meet with popularity and success.

The ideal of service finds its highest expression in the determination of the guildsmen that work done on Guild contracts shall be of the highest possible quality, in respect both of materials utilized and workmanship applied. The building guilds, unlike many of the private contractors, have never made it a policy to secure acceptance of their tenders through scamping on the grade of materials or to hasten the completion of a contract through scamping on the workmanship in even the smallest details. Indeed, this has been carried to such lengths that the Guild surveyors, in making a report to the National Board early this year, declared that "the quality of the work done, commercially considered, is better than is required. . . . We are confronted with the grave difficulty of competing with private builders with good work against scamped work at competitive prices." <sup>6</sup> It is an ambition of the guildsmen to do work that shall equal, if not surpass, in quality that done by the craft guilds of the Middle Ages, and several features of Guild workmanship that will later be described have been designed with this end in view.

The policy of control by the workers which is inherent in the Guild structure has already been referred to, and need not be again discussed further than to point out that the organization of the guilds is not so much an example of pure "industrial democracy," much abused tho that term may be, as it is one of industrial management through delegated authority subject to indirect democratic control.

In recognition of the social value inherent in human effort — what some economists would call the "human costs" of production — the guilds propose to substitute for the existing wage contract, which, they claim, is based upon a commodity valuation of labor and is there-

6. *The Building Guildsman*, May, 1922, p. 76.

fore thoroughly unsound,<sup>7</sup> a system of remuneration which shall more adequately meet the needs of the worker as a human being. Under the guilds, labor becomes the first charge on the industry and its social value is recognized in the provisions for continuous pay. As originally conceived, the system of continuous pay was to be an approach to the ideal of full industrial maintenance—maintenance, that is, of all workers at the full standard rate during unemployment, bad weather, sickness, accidents, and holidays—which has in recent years been so vexed a question in England. By this means it was hoped that the worker, with the fear of unemployment removed, would abandon his “ca’canny” attitude toward production, and would coöperate more willingly with the employer in an attempt to increase output and improve the standards of workmanship. The guilds unaided, however, were not in a position to undertake a program of full industrial maintenance, and it was finally decided that the provisions for continuous pay should apply only while the worker was actively engaged in the service of the Guild. Payment for time lost through unemployment, therefore, was not attempted and it has even been found necessary to scale down considerably the rates paid for time lost on account of sickness. The following scale of sick pay was adopted in January, 1922, and is at 50 per cent of the standard rate:<sup>8</sup>

After 3 months' continuous service, 4 weeks at 50 % per man per year

"	6	"	"	"	5	"	"	"	"	"	"	"
"	9	"	"	"	6	"	"	"	"	"	"	"

7. It is difficult to follow the reasoning of Guild theorists on this point. To the writer it has always seemed that there is much to be gained, especially in attempting to solve such problems as unemployment and low wages, in a frank acceptance of the fact that labor possesses all the characteristics of, and to all intents and purposes is, a commodity. If anything were needed to fill out this concept so as to make it applicable to industrial relations, it is to remember that the units of the labor supply are human beings, not sticks of wood nor pieces of metal.

8. These are the rates for the National Building Guild. The London Guild still adheres to a slightly different arrangement, under which skilled workers begin to receive

The standard rate for skilled craftsmen being nearly 25 per cent higher than that for ordinary laborers, their rates of sickness pay are correspondingly increased. In addition to this the workers receive benefits payable under the National Health Insurance Act of May, 1920, which provides, after the first two years of insurance, benefits for sickness at the rate of 15s. per week for a possible period of twenty-six weeks, and after this period a disablement benefit of 7/6 per week to be paid indefinitely. The 15s. benefit works out at about 20 per cent of the present standard rate for skilled workers, so that for at least a month of his sickness the Guild worker is assured of an income from these two sources alone approximating 70 per cent of his regular earnings. For time lost through accidents the Guild pays its workers at approximately the standard rate, if account is taken of the sums payable under the Workmen's Compensation Act. Payment for time lost through bad weather and holidays is at the full standard rate,<sup>9</sup> both of which items constitute a considerable portion of the Guild's charges for continuous pay. The actual cost of continuous pay during the first two years of the Guild's operations, and its effect on labor efficiency, will be discussed at a later stage.

No general principle of remuneration is discoverable in the gradations of pay adopted for the different classes of Guild workers. The operatives receive the standard rates of pay established for the building industry by the Wages and Conditions Council of the Building Trades Parliament, plus the amounts payable under the con-

sick pay after six weeks of continuous service, and after six months' service receive pay at something more than 50 per cent of the standard rate. The rates for building laborers in London are not so high as those paid by the National Guild.

9. This statement is based upon information from Mr. Sparkes. In the Walthamstow Guild, payment for holidays is at the rate of one-half day per month per man, with payment for four statutory bank holidays in addition. Whether this amounts to the full standard rate, the writer is unable to state.



tinuous pay provisions of the Guild. Departmental foremen are usually paid 3d. per hour above the standard rate, and general foremen receive about twice the standard rate for operatives. The salaries of heads of departments, e. g., the regional secretary or accountant, are from 25 to 50 per cent above those of general foremen. Members of the regional or national boards receive payment only for time lost and expenses. The architects employed by the Guild receive the fees customarily paid in private industry; no premium, bonus, or other extra reward is ever paid to the technicians. The surveyor is sometimes a salaried official, in which case he would rank as head of a department, but usually the guilds pay their surveyors on a commission basis, and at Manchester the fee is fixed at three-fourths of one per cent of the value of contracts secured. In no branch of the Guild service has any system of payment by results been introduced, and developments along this line are exceedingly unlikely.

A number of questions addressed to Mr. Sparkes by the writer as to the ideas underlying the Guild's methods of remuneration brought forth the following response:

The maximum of individual effort must be evoked in the Building Guild by the desire of the worker to do his best for the Guild, just in the same way as a football player does his best for his team. The motive is creative rather than possessive, altho there are, of course, very substantial chances of promotion in the Guild. . . . It would seem impossible at the present stage of development to avoid grades. The only thing that can be done is to approximate each grade to the recognised remuneration for that grade. *There is a good case for levelling up the standard rate so far as it can be done without unduly increasing the cost of building. There appears to be no case for lowering the technical grades merely in pursuit of a sentimental desire for equality. . . . I think you may take it that the Guild will never go in for payment by results. It is quite true that there are differences of ability, and it is only occasionally that each man in a team of mixed ability can be said to be doing his utmost, but that will develop in time.*<sup>1</sup>

1. Italics have been added.

One is at a loss to discover in this strange jumble of facts and theories any clearly defined principle of remuneration, and it is doubtful whether the guildsmen themselves are satisfied on this point. Grades of remuneration there certainly are, and differences in individual ability are recognized by the leaders of the movement as a problem to be met with and conquered. The dominant tendency in Guild Socialist theory, however, and to a less extent in its practice, is to indulge the hope that a maximum of individual effort may be evoked through the ideal of service and of coöperation toward a common end, rather than through any monetary appeal to the individual's selfish desire to lead or to excel. Competition among the workmen to the end that the more efficient may receive differential treatment in the way of remuneration or promotion has been largely eliminated.

The guilds at the outset were seriously embarrassed by the lack of any means of securing adequate credit to finance their undertakings. The London Guild had already raised about £1500 by the sale among local branches of the N. F. B. T. O. of non-interest-bearing certificates to the value of 5s. and upwards, repayable at a date to be determined by the Board, to meet preliminary expenses, but neither it nor the Manchester Guild were in a position to purchase the large quantities of plant and equipment that were required or to extend to the Ministry of Health satisfactory guarantees as to the completion of contracts. Fortunately at this juncture the building department of the Coöperative Wholesale Society — the largest dealer in building materials, with the exception of the government, in Great Britain — became interested in the Guild's activities, and the Society finally consented to be a third party to

the guilds' contracts with the Ministry of Health, and to place at their disposal its facilities of credit and insurance, to be secured by one-half of the £40 receivable on the completion of each house and also by the weekly payments falling due under the contracts. In this way the guilds were enabled to secure advances whereby the initial costs of plant, equipment, and materials, and the first few weeks of the workers' pay, might be paid and operations commenced without delay. Without this timely aid it is doubtful whether the guilds would have prospered to the extent that they have.

The guild committees are allowed to maintain an overdraft at the local branch of the Coöperative Wholesale Society's bank to an amount not exceeding 2 per cent of the total value of the contracts in hand. Each local committee controls its own bank account, pays interest on its overdraft, and makes out its own checks for wages, materials, and other purposes. In this connection it is significant to note that during the period from October, 1920 to December, 1921, checks were drawn in excess of £400,000 and every penny was satisfactorily accounted for. This does not mean that the guilds' methods of accounting and financial administration have reached perfection, however, for they have still far to go in this direction. All payments received by the National Board from local authorities and others on account of contracts under way are credited to the accounts of the respective guild committees, after a deduction of 2 per cent has been made for administrative expenses of the National Board and the regional councils.

Under the contracts with the Ministry of Health, the Coöperative Wholesale Society undertakes to insure the local authority against possible loss incurred through termination of the contract at any time because of dis-

satisfaction with the Guild's work. In virtue of a premium paid by the Guild of 2s. 6d. on every £100, the local authority may recover from the C. W. S. a sum not exceeding 20 per cent of the estimated cost on each contract.

Early in the spring of this year an unfortunate incident occurred in the Guild's relations with the C. W. S., an incident which is likely to direct the future policies of these two bodies apart from and against each other, rather than toward any closer coöperation or possible union. The directorate of the C. W. S. professed entire willingness to extend to the guilds its financial accommodation on all basic contracts, and such aid has at all times been forthcoming on receipt of the proper security, but when the question arose of granting accommodation on maximum-sum contracts, whether undertaken for the government, for coöperative societies, or for private parties, the finance committee of the C. W. S. refused its sanction and no further accommodation has been extended. The reason for this is that the Society maintains a building department of its own and it was seen that either this would have to be given up, or the Society must deny further accommodation to the Guild, and it chose the latter course. The guilds forthwith withdrew all their insurance from the C. W. S., meaning a loss of business to the latter of something like £250,000, and made arrangements to carry on their work by means of a levy on the members of the N. F. B. T. O., and also by a national loan of £150,000. It subsequently transpired that the Guild, foreseeing the competition that must inevitably arise between the two, had made repeated offers to coöperate with the C. W. S. on a supply-production basis, the Society to furnish the necessary materials and provide for finance, and the Guild to organize and carry on production for all contracts,

whether with coöperative societies or with outside parties. Such a combination would have proved mutually advantageous and might even have become invincible, but the C. W. S. has so far refused to consider it. The chief difficulty is very likely one of principle, for the coöperative societies conduct their business for a profit and the guilds do not.

The Guild employs a firm of chartered accountants, together with a traveling auditor, to supervise the accounts of the local committees and issue the balance sheets of the regional councils. Until recently the accounts of the London Guild were audited by the Audit Department of the Coöperative Wholesale Society, and the statement of profit and loss for the year ending March 31, 1921, as certified by the Society's public auditor, shows a net loss on the year's transactions of £43.18.3. Loan capital at that time represented a liability of something over £1000, sundry creditors claimed £30,727.1.2, and the overdraft at the C. W. S. bank came to £12,317.17.5. Plant, machinery, and office equipment constituted assets which, allowing for depreciation, amounted to very nearly £8000, and the sundry debtors' account totaled £33,313.8.11. For the year ending March 31, 1922, at which time the London Guild's accounts were merged with those of the Manchester Society in the newly-created National Guild, this loss of £43 was converted into a net surplus of over £6000, an amount equivalent to a dividend of 30 per cent on the total capital in operation during the year. The balance sheet of the London Guild as at March 31, 1922, and the profit and loss account for the twelve months then ending are herewith reproduced through the courtesy of Mr. Sparkes. No attempt will be made to discuss these financial statements, as most of the items speak for themselves.

## BALANCE SHEET OF THE LONDON GUILD

(As at March 31, 1922)

Liabilities	£.	s.	d.	Assets	£.	s.	d.	£.	s.	d.
Share capital .....	1	4	..	Freehold property at cost				2,093	17	..
Old loan subscriptions 1,138 8 6				Factory in course of erection at cost .....				6,535	1	4
National loan subscriptions .....	10,215	15	3	Motor lorry at cost .....	201	10	7			
Sundry creditors ....	28,492	13	9	Less depreciation .....	20	3	1	181	7	6
Income tax deducted ..	13	10	..	Machinery as last year	1,806	11	9			
Bank overdraft .....	28,173	11	7	Additions during year	621	19	..			
Profit and loss account 6,188 12 11										
74,223 16 ..				Less depreciation .....	2,428	10	9			
					247	9	9	2,181	1	..
				Huts as last year .....	533	6	9			
				Additions during year ..	878	14	..			
					1,412	..	9			
				Less depreciation .....	143	10	5	1,268	10	4
				Plant as last year .....	5,131	4	7			
				Additions during year ..	4,786	6	3			
					9,917	10	10			
				Less depreciation .....	3,227	5	10	6,690	5	..
				Furniture and office equipment as last year	441	11	10			
				Additions during year ..	304	16	2			
					746	8	..			
				Less depreciation .....	82	18	1	663	9	11
				Miscellaneous assets as last year .....				3	17	6
				Stock in hand:						
				Materials .....	1,475	4	10			
				Literature .....	74	10	..			
				Stationery .....	168	9	1	1,718	3	11
				Work in progress .....				10,898	18	1
				Sundry debtors .....				39,579	16	7
				Suspense account:						
				Accounts paid in adv. 199 5 3						
				Installation cost, etc., carried forward ...	1,895	3	11	2,094	9	2
				Loan to Southend Guild Committee .....				50	..	..
				Cash at head office .....	32	10	6			
				Cash in hands of area committees .....	149	1	8			
				Cash in hands of various imprest holders .....	83	6	6	264	18	8
								74,223	16	..

## PROFIT AND LOSS ACCOUNT OF THE LONDON GUILD

(For 12 months ending March 31, 1922)

Dr.	£	s.	d.	£	s.	d.	Cr.
To administrative expenses of head office:							
Salaries .....	6,082	19	11				By gross profit brought from working account 20,750 1 4
Postage, stationery, etc.,	922	14	11				By discount received (own account) .....
Rent, light, and heating, etc.,	908	12	3				512 15 6
Bank interest and charges .....	1,270	5	5				By bank interest .....
Insurances .....	47	0	6				157 9 3
Traveling expenses, board meetings, and miscellaneous expenses	1,026	11	2	10,258	10	2	By agency commission ..
							221 3 ..
							By miscellaneous receipts
							26 14 1
							21,668 3 2
To literature and advertising expenses .....	227	8	4				By surplus for year brought down .....
Less sales of literature ..	132	6	9	95	1	7	6,232 11 2
							6,232 11 2
To area committees' expenses .....				397	6	8	
To administrative expenses of local depots and general job administration .....				932	14	9	
To property expenses ..	115	19	10				
Less rents received .....	94	4	2	21	15	8	
To miscellaneous expenses				8	16	..	
To depreciation of plant and machinery .....				3,721	7	2	
To surplus for year carried down .....				6,232	11	2	
				21,668	3	2	
To deficiency brought forward from 1920-21.				43	18	3	
To net surplus .....				6,188	12	11	
				6,232	11	2	

At a meeting of the National Board in November, 1921, the Guild's surveyors reported that since the formation of the Guild, work to the total value of £16,000,000 had been tendered for, of which £4,000,000 had been accepted by local authorities, but that this amount had subsequently been cut down by the Ministry of Health to £1,250,000. Two hundred and seventy tenders in all had been submitted to local authorities, in addition to approximately two hundred tenders for private work. To the outsider these statements will seem rather dismaying, but it should be remembered that the average contracting firm considers it is doing well when 10 per cent of its estimates are accepted, and the Guild has done considerably better than this, so far as acceptance of the tenders by local authorities is concerned. The Ministry of Health, furthermore, has been consistent in reducing contracts for housing schemes to the smallest possible dimensions on grounds of economy, and the Guild, in having its accepted tenders cut down by more than one-half, has been treated no whit differently from other contractors. The success of the Guild in meeting the competition of private builders is to be measured, not by the amount of contracts finally sanctioned by the Ministry, but by those accepted on the part of local authorities, and here the Guild has established the exceptional record of 25 per cent accepted.

Notwithstanding this record, Mr. S. G. Hobson, who does not always speak for the best interests of the building guilds, declared recently that the system of competitive tendering was "downright wicked." It not only encourages scamping, he claims, through the premium placed on lower estimates for material costs, but it often involves collusion between employer and worker to substitute inferior grades of workmanship or



material for those ideally required. Some of his comment is characteristic:

The truth is that tendering has become a silly gamble, totally incompatible with serious business. . . . It often happens that by the mere cast of a die men are compelled to work for a master when they want to work for themselves. *The Building Guild will not be finally established until we can say: "This is a fair price; if you don't like it the work won't be done."* That is the final application of the labour monopoly. . . . *The system of tendering is the most powerful weapon the employers possess to beat the building operatives into subjection.*<sup>2</sup>

We may disregard the more provocative of these remarks, which are truly unworthy of the spirit in which most of the guildsmen carry on their work, and concentrate our attention on the last sentence which has been quoted. The writer believes that the system of competitive tendering has subjected the guilds to a number of disadvantages, among which is the undeniable fact that the guilds tender only on the basis of the highest quality of workmanship and materials, whereas the private contractor tenders on whatever basis he may please, meritorious or otherwise. These disadvantages, however, are far outweighed by a very tangible advantage which the guildsmen themselves should be the first to recognize and appreciate. It was stated by the surveyors in their report in the following words: "It is obvious that on a competitive basis, and until the reputation of the Guild is firmly established for the quality rather than the cost of its work, the future of the Guild will be difficult unless there can be an increase in production at least equivalent to the superior quality of the work." The writer would go even farther and declare that the Guild is entitled to no future unless it can raise the level of production by at least this amount and thus redeem the good name of the building industry

2. *The Building Guildsman*, January, 1922, pp. 19, 20. Italics have been added.

of Great Britain. Here is a chance for the guilds to demonstrate that the organization of industry which they propose is capable of arousing the workers to a sense of what "organized public service" really means, to a realization that "ca'canny" practices do not conduce to the success of any industrial enterprise, however it is managed, and to a desire to put forth efforts in the performance of their work that outside of America would be thought suicidal.

In a manifesto issued early in 1920 on behalf of the N. F. B. T. O., entitled, "Wage-Slaves or Free Men: the Building Workers' Choice," a challenge was made to the Ministry of Health in the following terms:

If Dr. Addison [former Minister of Health] will give us the contracts . . . we, with the building guilds, will build all, and more than all, the houses that are required. *We will build them more cheaply than the private contractors, and we will save the taxpayers millions of pounds.*<sup>3</sup>

The guilds have not had the chance to build either "all" or "more than all" the houses that were required, but they have repeatedly made the claim that, if allowed to compete on equal terms with the private contractor, they could build houses not only at less cost but at the same time of better quality, than could the private builder under exactly the same circumstances. It will now be our task to discover to what extent this two-fold claim has been borne out.

With regard to reduced costs, it is apparent that the guilds have put their faith in the policy of continuous pay to increase the efficiency of their workers and so lower the costs of labor and maintenance. Since continuous pay itself is an added element in the total wages

3. Italics have been added. The authorship of this manifesto has been attributed to Mr. George Hicks, President of the N. F. B. T. O., but this is not known for certain to the writer.

bill, it is obvious that Guild labor, in order to pay its way, must increase its efficiency not only by the amount it receives over the regular standard rate, but by something else besides — something in addition which will enable the Guild to underbid the private contractor and at the same time to pay higher wages to its workers. In the first annual report of the London Guild it was estimated that under the policy of continuous pay the Guild was increasing the standard rate by approximately 11½ per cent, and at the same time was reducing the cost of building by at least 5 per cent below its own estimates, which were in turn substantially below the estimates of competing private contractors. The writer has not been able to confirm this statement. His experience has been, rather, that the amount paid to workers in respect of continuous pay has not exceeded 3½ per cent of the total annual wages bill — that is to say, that the *cost* of continuous pay represents an increase over the standard rate of about 3½ per cent per annum — and that the saving on estimates, altho each block of houses completed by the Guild almost invariably shows some saving, has varied considerably and probably does not approximate on the average the 5 per cent estimated.

At the time that the Guild first announced its intended policy of continuous pay to workers through sickness, accidents, bad weather, and holidays, predictions were freely made that this would result in a thoro demoralization of the labor force, that malingering would be rampant, and that workers would endeavor, to use the words of one writer, to make their job a convalescent home. None of these predictions, to the writer's knowledge, have been fulfilled. Mr. Sparkes was probably speaking for the entire building guild movement when he declared, in a letter to the writer,

that malingering, so far as the London Guild was concerned, is unknown. That this is an accurate statement of the Guild's experience in carrying out this new departure in workers' remuneration is amply evidenced by the following statistics regarding the estimated and actual cost of continuous pay to the London Guild for the year ending March 31, 1922:<sup>4</sup>

CONTINUOUS PAY RECORD OF THE LONDON GUILD

(For the year ending March 31, 1922)

Contingency	Income as allocated	Actual expenditure
Sickness .....	£4,162.15.11	£1,566.17. 9
Accident .....	1,307.10.10	233.15.10
Stress of weather .....	2,881.18. 8	734. 5. 4
Holidays .....	4,803. 2. 7	3,683.18. 2
Reserve .....	2,081. 7.10	
Total .....	£15,236.15.10	£6,208.17. 1

As already stated, the total amount actually expended for continuous pay during this period works out at about  $3\frac{1}{2}$  per cent of the total wages bill.<sup>5</sup> For the year ending September 30, 1921, the cost of continuous pay for the London Guild was somewhat less, the total amount so expended, £2408,<sup>6</sup> standing to the total wages bill, £96,000, in the ratio of about  $2\frac{1}{2}$  per cent. That this reduction of 8 per cent from the original estimate is due entirely to the efforts of the workers to keep down the expenses of the Guild is evident from the following statistics regarding sickness and accident pay for the entire time that the London Guild has been in operation:

4. Furnished to the writer by the courtesy of Mr. Sparkes.

5. Wages paid by the London Guild during the year ending March 31, 1922 are stated in the working account as: on basic contracts, £140,066.19.2; on other contracts, £30,750.8.7.

6. This amount was distributed as follows: for bad weather, £24; for sickness, £243; for accidents, £80; for holidays, £2061.

## SICKNESS AND ACCIDENT STATISTICS OF THE LONDON GUILD

(Period from October, 1920 to April, 1922)

Average number employed .....	1,000	
Approximate number of days worked .....	272,000	
Contingency	Sickness	Accident
Total number of claims .....	361	73
Total number of days benefit paid .....	4,712	999
Average duration of claim (days) .....	13½	27
Percentage of days lost per man .....	1.73	0.36

It so happens that one of the national unions in the building trades, that of the operative plasterers, maintains certain beneficiary features similar to those comprehended in the Guild's scheme of continuous pay, and a comparison between them seems to indicate that the Guild has been the more successful of the two. For the 1.73 per cent of total working days lost per man on account of sickness in the Guild, the National Association of Operative Plasterers had an average of 3.19 per cent lost per man on the same account. Again, the percentage of days lost per man through accident in the Guild was .36 per cent, whereas the rate in the N. A. O. P. was .66 per cent per man. To make an even sharper comparison: workers in the service of the London Guild during the period from October, 1920 to March, 1922 lost an average of 4.7 days per man through sickness, about half the number lost each year by uninsured workers in the United States, about half the number lost in 1915 by insured workers in Germany, and about half the number lost in 1913 by insured workers in Austria.<sup>7</sup> In France, where a system of mutual insurance prevails, the average number of days lost through sickness in 1910 among members of the so-called "free" insurance

7. The commission on industrial relations reported in 1915 that an average of 9 days each year is lost by the wage earners of the United States on account of sickness. The rate per insured worker in Germany, where sickness insurance was introduced as early as 1885, had risen to 9.19 days lost per man in 1915. In Austria the average number of days lost per insured worker in 1913 was 9.45.

societies was 3.87 per insured member — a figure with which the Guild's showing of 4.7 days per worker for a somewhat longer period compares quite favorably. It is almost beyond doubt that this comparatively low rate of sickness and accident liability has been made possible through the determination of the workers to draw upon the Guild's resources only so much as was absolutely necessary.<sup>8</sup>

One conclusion — a negative one — may, then, be drawn as to continuous pay, and that is that it has not encouraged malingering. Has it, however, fulfilled the purpose for which it was in large part designed — to increase the efficiency of labor to such a degree that the guilds would be able to build more cheaply than the private contractor and so "save the taxpayers millions of pounds"? Direct evidence on this point is difficult to secure, since not only are private building concerns extremely reluctant to disclose their costs on housing contracts, but such data, even if available, might prove valueless for purposes of comparison because of dissimilarities in the types of houses constructed or differences in local conditions. Evidence is not wanting, however, to show that labor on Guild contracts is considerably more efficient than on private builders' work, and this greater efficiency is reflected in the ability of the Guild not only to underbid the private contractor, but also to effect substantial reductions on its own estimates.

Data as to the comparative efficiency of labor on Guild and on private builders' contracts are to be ob-

8. Similar experience has been had with payment for time lost during bad weather. Workers in the service of the Guild are much less inclined to "rain off" than are those employed under a private contractor; in fact, they have stretched trade-union rules to the point of accepting temporary jobs on "inside" work, even when these were outside their own craft, rather than "lean on the pool." It has been said that at Worseley and Walkden, where the Guild has housing schemes under construction, the men work in all sorts of weather.

tained chiefly from two sources: first, evidence secured by direct, personal observation; secondly, information vouchsafed from time to time by employers, local officials, and others who have had an opportunity of following closely the work of the guilds. The writer had occasion many times during the winter and spring of 1921-22 to visit the building sites at Walthamstow and Greenwich, and he may speak as one who has had considerable experience in factory work and is able to distinguish with fair accuracy the movements of the earnest and industrious worker from those of the slacker. Speaking as such, he is free to say that the activity of the workmen on Guild contracts — tho by no means to be described as "intense," as one English writer has characterized it — is much more noticeable and much more efficient than that of workmen on the average private builder's contract.<sup>9</sup> Altho the efficiency of Guild labor, at least to American eyes, does not appear as anything remarkable, it is certainly superior to that to be found elsewhere in the building industry of Great Britain, except on the best organized and most carefully supervised of private builders' work. The writer would hesitate to express his opinion thus positively were it not confirmed by the observations of an American builder who had similar opportunity, early in 1921, of comparing the work of the guildsmen with that of workmen employed by private building concerns.<sup>1</sup>

In this case the evidence of personal observation is well sustained by the statistical data available as to

9. This is not to say that the Guild workmen were other than leisurely in their movements — they would cease to be British were they not — or were never to be found loitering about on the site. The writer has more than once discovered groups of bricklayers, carpenters, and others idling about on the scaffolding apparently engaged in earnest and animated discussion. These may, of course, have been impromptu committee meetings — the guilds have many of them — but in any event they make an unfavorable impression on the uninitiated onlooker.

1. Cf. A. M. Bing, "The British Building Guilds," *The Survey*, October 29, 1921, pp. 167-171.

comparative labor efficiency. Employers, public officials, and technicians of various grades seem equally unanimous in the opinion that Guild workers are much more steady and rapid in the performance of their work than are those employed by private contractors, and they offer figures to support their statements. Mr. Stephen Easten, in a speech before a conference of the National Federation of Building Trades Employers in April, 1921, declared that the guilds were demonstrating that many of the workers on private contracts were doing less than half a day's work for a full day's pay. This, he said, was shown by the fact that the latter lay 350 bricks a day while the guildsmen lay from 700 to 800. Of similar purport is information obtained by the writer from the engineer of the Walthamstow District Council, and this seems to show that the efficiency of labor on Guild work is nearly twice that on private builders' work. According to the Council's engineer, the most that any private contractor of his acquaintance could get from his men was 450 bricks laid per day, which was considered a very good average, whereas the guildsmen on the Walthamstow contract were laying regularly from 800 to 820 bricks per day on straight-wall work. Incidentally it may be remarked that some twenty years ago, before the "ca'canny" agitation had set in and under a 10-hour day, the average bricklayer in England was expected to lay about 1000 bricks a day, which was considered a fair rate. In America at the present time it is quite common for workmen to lay between 3000 and 4000 bricks per man per day, and by a scientific arrangement of scaffolding and materials and a reduction in the number of movements required for the operation by something like two-thirds, a rate three times the present rate has been obtained<sup>2</sup>—fifteen times greater than

2. Cf. Frank B. Gilbreth, *Bricklaying System*.



that of the guildsmen and twenty-five times greater than that of the average British laborer! In extenuation of the Guild and of British labor generally it may be remarked that the brick in use in England is somewhat larger and more difficult to handle than that commonly used in building construction in this country. The fact remains, however, that there is an enormous disparity between the efficiency of building trades labor in the two countries, and this fact must influence to a considerable extent our conclusions as to the future of the Guild movement.

Another valuable bit of evidence as to the comparative efficiency of labor on Guild and private builders' contracts has been furnished by Mr. W. H. Nicholls, vice-president of the Building Trades Employers' Federation. In a speech at Bristol in April of this year, he declared that in a case which had come under his observation the cost of nine-inch work with pointing done by workmen on private contracts was 8s. 5d. per yard super, while the cost of similar work done by Guild workers on an adjoining site was 3s. 2½d. per yard super, practically one-third the cost of the private builder.<sup>3</sup> "In other words," he went on to say, "the guilds are paying by results. Building employers are determined as a trade to have the same privileges and pay their men for what they produce." The writer made diligent inquiries to verify this statement as to the Guild's having introduced a system of payment by results, but he was unable to discover any basis for it in fact. The guilds have more than once expressed their profound abhorrence for "Taylorism" and all its works; indeed, if anything is certain as to the future of the Guild movement,

3. The "work" in question is bricklaying, and the dimension refers to the length of the brick. "Pointing" is a finishing operation whereby the interstices between bricks on exposed surfaces are sealed over with fine, hard cement.

it is that no system of individual payments or payment by results will ever be introduced as part of the guilds' working policy. The whole tendency of their economic thought is in the opposite direction — toward a communal basis of remuneration. It is evident that Mr. Nicholls was misinformed on this point, altho his evidence is none the less pertinent on that account.

By far the most convincing proof of the superior efficiency of Guild labor is to be found in the data that have become available as to building costs on the contracts where houses have already been completed. It is obvious that if bricklayers, as was shown above, are from two to three times more efficient on Guild contracts than on private employers' contracts, the cost of building operations must be correspondingly reduced, since the cost of materials for the two should be about the same. Dr. Addison, former Minister of Health, declared in the House of Commons in January, 1921, that altho he did not believe the figures as to comparative rates of bricklaying were generally true as they had been quoted to him, he was ready to state that an increase of output from 300 to 900 bricks a day would be equivalent, on the average, to a saving in cost of about £70 per house.<sup>4</sup> That this was an accurate estimate is shown by the fact that the guilds have not only been able many times to underbid the private contractor by a margin in excess of £70 per house, but have actually succeeded in building below their own estimates to an amount which in many cases has averaged £70 per house, and in some instances has reached as high as £150 or £200 per house. Not all the evidence on this point can here be given in detailed form, but the writer has selected the two largest contracts of the London Guild — those at Walthamstow and Greenwich — as

4. *The Builder*, January 21, 1921.

fairly typical, and these will now be given a close examination.

Tenders for the Walthamstow contract of 400 houses were submitted in September, 1920, and one month later it was announced that the Guild tender had come out the lowest of all competing tenders, *after the inclusion of the 6 per cent charge for establishment expenses, plant, and maintenance, and the £40 completion fee for continuous pay.* An analysis of the tenders is herewith presented:

Type of house	Tender of the Walthamstow Guild Committee			Amount by which next lowest tender exceeded that of the Guild		
Type No. 119. End house .....	£870	7	0	£119	13	0
Type No. 119. Intermediate house.	932	11	10	139	8	2
Per house						
Type No. 171. Pair of houses ...	1,809	0	3	104	9	10½
Type No. 183. End house .....	838	1	2	57	10	0

An average saving to the local authority, then, of about £100 per house was effected through acceptance of the Guild's tender. The contract was signed in October, 1920, and by November of the following year 70 houses in all had been completed. The total actual cost of these houses, as compared with the total estimated cost, after allowance had been made for alterations and extras in original specifications and designs, was as follows: <sup>5</sup>

Estimated cost .....	£82,755	5	6
Actual cost .....	60,504	11	7

Total saving .....	£2,250	13	11
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From this it will be seen that a saving of approximately £32 per house in addition to the £100 per house saved through acceptance of the Guild tender, was effected on the first 70 houses constructed, despite the fact that the period of their construction fell in a time

5. According to a statement published by the accountant of the London Guild.

when prices of building materials and wages of labor were at their highest. This represents a saving on estimates of something like 3.6 per cent, somewhat less than the 5 per cent that was at first estimated. Similar savings are reported on the 32 houses later constructed by the Guild at Walthamstow during the period March, 1921 to January, 1922. A detailed statement of the average costs and savings for each type of house in this more recent group is herewith reproduced.<sup>6</sup>

STATEMENT OF AVERAGE COSTS PER HOUSE OF DESIGNATED TYPE  
ON GUILD CONTRACT AT WALTHAMSTOW

(Period of construction: March, 1921 to January, 1922)

Item of cost	Type 119 (18 houses)	Type 183 (10 houses)	Type 171 (4 houses)
Labor, haulage, and unloading .....	£321 10 ..	£339 .. ..	£345 10 5
Materials .....	443 13 4	442 2 ..	520 10 9
Overhead charges (including staff salaries and wages, insurance, fuel, water, etc.) ..	41 4 ..	41 2 ..	45 10 2
Average prime cost per house (including overhead charges) .....	£806 7 4	£822 4 ..	£911 11 4
6% for establishment expenses, plant, and maintenance .....	£48 8 ..	£49 6 ..	£54 12 6
Completion fee .....	40 .. ..	40 .. ..	40 .. ..
Average total cost per house .....	£894 15 4	£911 10 ..	£1,006 3 10
Average basic price per house in tenders of September, 1920 .....	£851 9 8	£838 1 2	£904 10 1
Average basic cost per house after making allowance for balance of extras over deduc- tions and fluctuations .....	808 18 ..	828 1 5	891 14 11
Approximate saving per house over aver- age basic price .....	£42 11 8	£9 19 9	£12 15 2

On 18 of the 32 houses — those of a type which constitutes a majority of the houses constructed at Walthamstow — an average saving of over £42 per house

6. Furnished to the writer by the courtesy of Mr. G. W. Holmes, engineer of the Walthamstow Urban District Council. The form of statement has been somewhat simplified.

was effected, an amount equivalent to 4.9 per cent of the average basic price. On the other two types the average saving effected was considerably less, and this variation in the amount saved as between different types of houses will be found to hold true of building costs on nearly all the Guild contracts.

The contract with the Greenwich Borough Council for the erection of 190 houses on the local housing scheme at Charlton was not signed until March 4, 1921, and altho more than 100 houses have already been completed, the writer is able to give figures as to costs for only the first 26 houses constructed. A comparative analysis of the estimated and actual costs on houses of Types B. 3. S. and B. 4. N. follows:<sup>7</sup>

Items of cost	Type B.3.S.(16 houses)		Type B.4.N. (10 houses)	
	Estimated cost	Actual cost	Estimated cost	Actual cost
Basic cost per house .....	£888 12 5	....	£1029 13 11	....
Additions as certified by council's surveyor .....	18 2 7	....	19 8 9	....
Further work since acceptance .....	90 .. ..	....	55 .. ..	....
Amended basic estimate ....	996 15 ..	£927 8 1	1104 2 8	£1072 11 5
Add contract fee — 6% ....	59 16 ..	55 12 6	66 4 6	64 6 6
Add completion fee — £40 ..	40 .. ..	40 .. ..	40 .. ..	40 .. ..
Total cost per house .....	£1096 11 ..	£1023 .. 7	£1210 7 2	£1176 17 11
Approx. saving per house ...	£73 10 5		£33 9 3	

Savings of approximately 6.6 per cent and 2.7 per cent on the revised basic estimates for Types B. 3. S. and B. 4. N. respectively were thus obtained on the Charlton housing scheme. The writer attempted to secure similar figures as to costs on houses of the same

7. Furnished to the writer by the courtesy of officials on the Greenwich Borough Council. The statement was originally prepared by Mr. H. Barham, accountant of the London Guild.

types constructed for the Council by a private building concern, but he was unsuccessful.

On practically every contract that the Guild has undertaken equally favorable results have been obtained. The first two houses built by the guildsmen at Bentley in Yorkshire (part of a contract for 77 houses) showed a saving on the private builders' estimates of more than £200 per house. At Manchester, where the guilds have contracts with the City Corporation for the building of over 2500 houses, the costs of the first houses completed show a saving, as compared with private builders' estimates, of from 15 per cent to 18 per cent. Savings of similar amount are reported for the work done by the Guild at Glasgow. At Rotherham, according to a statement of the housing committee's chairman, the Guild effected savings on the contract price of the first block of houses constructed of £130 on the non-parlor type, and of £35 on the parlor type. A private contractor building the non-parlor type of house for the Council was able to effect a saving of only £30 per house. Detailed, tho incomplete, figures as to building costs on the first 22 houses constructed by the Guild for the Rotherham Town Council are in the writer's possession, and they show savings over average basic prices for each of the seven blocks of houses quoted, as follows:

Block No. 1, 2 houses, £ 22 per house:
Block No. 2, 4 houses, £ 89 per house:
Block No. 3, 4 houses, £162 per house:
Block No. 4, 4 houses, £155 per house:
Block No. 5, 4 houses, £153 per house:
Block No. 6, 2 houses, £ 67 per house:
Block No. 7, 2 houses, £114 per house.

—an average saving for the 22 houses of £120 per house, which represents about 13 per cent of the average basic price for all the houses. At Walkden and Hey-

wood also substantial savings were secured by the local authorities through the ability of the guilds to underbid the private contractors on the basis of an increased efficiency of labor.

The evidence is overwhelming, then, that the efficiency of Guild labor is much superior to that of labor employed by the average private builder. Is the quality of workmanship, however, maintained at an equally high level? In answer to this question the writer would state that only once in the course of his inquiries did he encounter a person who held other than a favorable opinion of Guild workmanship. The person in question was hardly qualified to render an expert judgment, and he ended by remarking that the guilds probably did as good work as any of the private contractors, "but all these workmen's houses are jerry-built, you know, anyhow." Against this may be set the opinion of a number of experts—trained technicians—who have had ample opportunity of examining the work of the guilds. The engineer of the Walthamstow District Council declares, in a letter to the writer, that "the Guild is undoubtedly putting the very best work into the houses — better, I think, than the ordinary contractor in many cases. . . . As one who recommended the Council to give the Guild their first contract, I can say I do not regret having done so." The chairman of the Rotherham Town Council's housing committee similarly declares that "so far as workmanship is concerned, the work of the Guild is superior to anything I have seen in cottage building. . . . Nearly every one of our applicants for houses wants a Guild house, and there is keen competition to get one. Some of the applicants, altho living under very crowded conditions, are quite willing to wait weeks for a house if they can have the promise of one built by the Guild." The surveyor of the Bentley District Council states,

with reference to the Guild-built houses: "The quality of the work is extra good and far superior to that done by any other contractors in the district." An official of the Ministry of Health declared that the work of the guildsmen at Clayton (near Manchester) was "the best in England and Wales." The chairman of the contracts subcommittee of the Manchester City Corporation is reported as saying that "work on Guild contracts beats everything." Such comments as these might be multiplied indefinitely. Architects, surveyors, engineers, clerks-of-the-works, even private employers, are almost unanimous in the opinion that the quality of Guild workmanship is much superior to that to be found on the average of private builders' contracts.

Altho the writer has not presumed to pass judgment upon work of which he has little or no expert knowledge, there is no doubt in his mind that the guilds have put a superior quality of workmanship into the houses that they have built.<sup>8</sup> He is convinced that when the guildsmen speak of reviving the craft spirit of the Middle Ages, they mean something more than mere lip-service to a high-sounding ideal. He believes that the guilds have succeeded, in an age when scamping, jerry-building, profiteering, "ca'canny," and all the other practices whose one great aim is to secure a maximum of profit from a minimum of service, have become so undeservedly popular, in instilling in their workmen a genuine pride in honest, high-grade, and efficient workmanship. This is evident from the manner in which the workers spoken to referred to their work. "We like doing our work well," said one workman. "There's no

8. Mr. Ernest Selley, an English writer and social worker, who investigated the work of the guilds early in 1921, reports that individual mortice and tenon work is the rule on all frames and roofs constructed by the Guild. The usual practice is to mortice and tenon only the main posts, and "cut in" the intermediaries, but the guilds mortice and tenon each one, and see that they are "made to fit," as one worker said to the writer.



pleasure in scamping. Any man who is a craftsman will tell you that." All joinery work on houses constructed by the Guild, instead of being contracted out or imported, as is commonly the practice among private building concerns, is done by the workmen on the site. Window-frames, staircases, dressers, cupboards, and all wooden fixtures used in the houses are turned out by the guildsmen with their own tools and equipment. The guilds recently exhibited at the Building Exhibition held at Olympia, and their stand was described by one trade paper as the best in the show. They have also shown considerable enterprise in developing the technical side of their work, and are now advertising a new method of coloring woodwork without stain and by chemical action, called the "Dry-tone Process," for which patent has been applied. The National Building Guild lately published a book of type plans for "Labor Saving Houses" — another Guild idea — which is given to prospective building owners to aid them in selecting the type of house they desire. The plans for the houses are all designed by the Guild's architects and include the bungalow, cottage, parlor, and non-parlor types; brief descriptions of the houses and the approximate cost per house are given in each case. It is interesting to note that both the cost plus and maximum sum forms of contract are offered by the Guild for the building of these houses.

Discipline among the rank and file of the Guild workers is maintained not so much through the fear of discharge as through the desire to coöperate effectively toward the furtherance of a common end — to realize in the policy of democratic control the means whereby a system of mutual and democratic supervision may be brought about, that is to say, supervision of the workers by the workers. From all that the writer could

gather, this novel form of employment management has had quite satisfactory results. Very few workmen have been discharged on either of the sites which were visited, and apart from occasional ill-feeling caused by petty jealousies among the men, the discipline maintained among the Guild workers was in all respects exemplary. The power of discharge, however, is given to the general foreman, and if in his opinion a man is not "pulling his own weight" or is guilty of insubordination he may be dismissed. In each case of dismissal the general foreman must inform the secretary of the guild committee in writing of his action, and the secretary may thereupon inform the workman's representative on the committee of such action. A workman discharged for any other reason than lack of work may appeal against the foreman's decision to the works committee or to his union, and, finally, to the regional board. One such case of appeal at Greenwich resulted in a complete vindication of the foreman's stand in the matter and a condemnation of the worker's attitude by the men at work on his own job. The general foreman has also the power of hiring new men as the need arises. At first the policy was to take on each man, regardless of his qualifications, so long as he was a trade-union member, in the order that he came on the volunteer roll,<sup>9</sup> but this was quickly found to be ruinous to production and the practice now is to secure the best man available for each job, provided he is a trade-union member, and to give him continuous employment. In case of a slackening of work, especially as a contract nears completion, the foreman may lay off all such men as, in his judgment, are no longer required for carrying on the work. Against his decision in this matter there

9. This was done in a number of cases where there were large numbers of unemployed in the community.

is generally no appeal. In view of the considerable powers entrusted to the general foremen, it is surprising to note that almost without exception they are competent men with previous experience in supervising the work of building operatives; but for the lack of a certain "hard-boiled" manner in dealing with the workers they might easily be mistaken for the ordinary production foreman in an American factory.

Whatever we may think of the building guilds — and the above is as true and as accurate a picture of the guilds' experience as the writer could make it — there can be no doubt that the Guild movement is spreading, not only in the building industry, but in all industries, not only in England, but in all countries of Europe. Furniture and furnishing guilds have been formed in Manchester, London, Warrington, Bristol, and other cities, and have already found it necessary to expand their plant. In several districts they and the building guilds negotiate jointly for the building of new joinery works. A slate quarriers' guild has been formed in Oswestry, North Wales, and the Building Guild has already made arrangements to supply all the Guild contracts with slate from this source. There are guilds of tailors in London, Manchester, Glasgow, and other places; there are also guilds of agricultural workers, dock laborers, post-office workers, office clerks, musical instrument makers, and engineers; in Manchester and London the manufacture of packing-cases and horse-drawn vehicles is also carried on by workers organized into guilds. All these organizations have recently been put under the control of a National Guild Council, whose task will be to coördinate and expand the activities of the constituent bodies.

At Wellington in New Zealand a building guild has been formed similar to the British Guild; in the United

States a building guild has been organized at Walla Walla, Wash., the only one, to the writer's knowledge, in the country; in many parts of Germany also there are guilds of building trades workers and they have already completed a large number of housing contracts for municipalities. In Austria a triple alliance of the trade unions, the garden city associations, and the Austrian Lodgers' Union, has been formed to serve as a basis for the Builders' and Civic Improvers' guild, whose object is to secure complete control of all house-building operations throughout Austria. The Guild has at present about 200,000 members. In Italy an organization even more closely akin to the British guilds, the National (Italian) Building Guild, has been formed and has the support of more than 200,000 members of the National (Italian) Federation of Building Operatives. The Italian guilds are organized on much the same basis as the British guilds, with local, district, and national organizations, and have under their control various subsidiary industries which supply them with building materials and equipment. The writer has no authoritative knowledge of the work of the Italian building guilds, but reports have come to him that this has not proved altogether satisfactory. However this may be, Guild Socialism in one form or another is rapidly gaining ground throughout all countries of Europe, and in dealing with it we are dealing with a movement which has long since emerged from the theoretical stage and now challenges attention, not for what it might do if it were put into practice, but for what it actually has done where it has been put into practice. Exactly how much the success of the British building guilds predicates as to the success of the entire Guild movement we shall presently discuss, but in any case some weight on the favorable side must be given to our conclusions from the

very fact that one instance in which the Guild experiment was tried has resulted in a considerable measure of success.

The test by which the building guild experiment must ultimately stand or fall is whether the organization of industry which it proposes has resulted in a better and more efficient service rendered the public than was possible under the domain of private enterprise. So far as the British building industry is concerned, and, within that industry, so far as the building of workmen's houses on government contracts is concerned,<sup>1</sup> the evidence points unmistakably to the conclusion that the Guild organization of industry, with its policies of workers' control and continuous pay, has demonstrated itself superior, in respect both of quality and economy of workmanship, to private enterprise taken at its mean level. It has not, so far as the writer could gather, yet shown itself superior, or even equal, to the best organized of private building concerns; nor is the qualified success of the building guilds to be taken as an indication that the Guild organization of industry, wherever and whenever tried, would prove itself superior to private enterprise under exactly the same conditions. As an American builder has remarked, the conditions prevailing in the British building industry in the years following the war were such that the guilds could make a quite favorable showing without either particularly good management or very great labor efficiency.<sup>2</sup> This, of course, reflects no credit on the institution of private enterprise, and the writer is of

1. In view of the fact that the guilds have received a sum equivalent to the private builder's profit to be devoted entirely to continuous pay, and have been fortunate in securing a 6 per cent allowance for plant, maintenance, and establishment charges against the private builder's allowance of 3 per cent, with the charge for maintenance included under the contract price, it seems only fair to make this qualification.

2. A. M. Bing, *loc. cit.*, p. 171.

opinion that the guilds have not only carried on their work in a reasonably efficient manner, but have maintained their favorable record even in the face of the recovery of private enterprise from its temporary post-war relapse.

Exactly what part the guilds are destined to play in the future of the British building industry is exceedingly difficult to predict. Some of the Guild leaders aspire only to a partial control of building operations,<sup>3</sup> while others are equally outspoken in their intention to secure a monopoly of the industry through the complete absorption of the labor supply by the building trades unions. Whatever the outcome of this struggle may be, the guilds from now on will be compelled to secure their contracts in the face of the keenest competition on the part of private builders, particularly of the small building contractor who works for himself, employs only members of his own family on his contracts, and has practically no overhead expenses. The guilds may be able, as Mr. Sparkes has suggested to the writer, to meet this competition by the economy of purchasing materials and supplies in large quantities, but if they are to do so their purchasing operations must be organized on a sounder and more economic basis than is the case at present. Moreover, they must somehow contrive to obtain credit and working capital to finance their future undertakings, and in this they must reckon without the support of the Coöperative Wholesale Society. It is hardly likely, as one of the Guild leaders has ventured to hope, that private individuals would be willing to advance to the Guild part of their costs to tide them over the initial expenses of installing plant and purchasing materials. And from all that the guilds

3. This was the attitude taken by Mr. Sparkes. Cf. Report of the Management and Costs Committee of the Building Trades Parliament, Part II, App. II, p. 15.

have so far accomplished, it is altogether problematical whether they will ever be able to carry out large-scale building operations — such as would be involved, for example, in the construction of a new office building for the London County Council — owing to their peculiar type of organization and their lack of sufficient managerial and technical ability to engineer the operations. It may be that all this will come in time, or it may be that the guildsmen do not contemplate extending their organization beyond the limited field of house-building, and if such be the case, private enterprise — tho subject, we may suppose, to strict public regulation — will continue to fulfil an essential function in the future building industry of Great Britain.

The success of the building guild experiment predicates in one way a great deal, in another way very little, as to the success of a nation-wide Guild organization of industry. On the human side — that is to say, regarded as an experiment in human motives and their relation to the economic environment — the guilds have undoubtedly demonstrated that self-government in industry is a practicable ideal. Altho this is likely to upset many of our preconceived notions — or prejudices — on the possibility of “remaking” human nature, it is certainly a most valuable contribution to our present store of knowledge on the technique of social reform, and as such it deserves recognition in any forecast of the future of the Guild movement. Yet even should we assume that the guilds will be successful in overcoming all the human problems involved in a nation-wide reorganization of industry — an event which, to say the least, is not at all certain — they would still have to encounter such questions as the distribution of industrial control, the administration of inter-guild relations, and the determination of economic values under a

system wherein demand and supply have ceased to function. To the writer it is as easy to conceive that differences will arise between the various industrial guilds, serving effectually to paralyze a nation's industries, as they have in this case between the building guilds and the Coöperative Wholesale Society. The dangers inherent in a monopolistic and mutually exclusive organization of industry, with producers' groups organized solely along occupational lines, cannot, perhaps, be overestimated.<sup>4</sup> Experience has taught us that to concentrate in the hands of a small number of men the power to upset the industrial organization of an entire nation is to invite disaster, unless some impartial tribunal, whose authority is unquestioned and supreme, has the power to settle such differences and to enforce its decisions. It may be that the cases of inter-guild relations and the relations between employers and trade unionists are not strictly parallel, but Guild theorists will have to be much more explicit on this point before they can command support for their doctrines. To repose faith in some "supreme judicial tribunal" to harmonize all differences and smooth away all friction in the relations between guilds, when by a single act the workers in one industry could leave helpless the general body of consumers by withdrawing their services for an indefinite period of time, would be folly of the least creditable sort.

In this connection it is interesting to recall the pronouncement, previously quoted, of Mr. S. G. Hobson: "The Building Guild will not be finally established until

4. Altho it is one of the professed aims of the guilds to develop the "team-spirit" in modern industry, they are likely to run into serious difficulties unless the form of occupational grouping which they propose is supplemented by some more inclusive allegiance to a state or local community, wherein political rather than economic interests receive chief emphasis. On the whole, Professor McDougall's principle of "multiple group-consciousness" seems a sounder basis of social organization than any plan for a soviet, syndicate, or central guild committee that has so far been evolved. Cf. McDougall, *The Group Mind* (New York, 1920), pp. 111-119.



we can say: 'This is a fair price; if you don't like it the work won't be done.' That is the final application of the labour monopoly." These words possess particular significance in view of the fact that under a guild state, where commodities would have to be exchanged much the same as they are in the modern industrial community, the forces of demand and supply, as determiners of value and price, would for the most part have ceased to function. In these circumstances it is difficult to see how the value of a commodity — which is nothing more than its power to command other commodities in exchange — could be determined, and therewith its "fair price," unless upon some specious theory of "labor maintenance" or "labor-time units of production." Perhaps the guilds will eventually adopt the method of ultimatum, as recommended above by Mr. Hobson, demand and supplication to take the place of demand and supply. Assuming for the moment, however, that the ultimate determinant of value in a Guild industrial system would be the cost of labor maintenance, including payment for time lost through unemployment, sickness, accident, bad weather, and holidays, it follows inevitably that there must be a uniform standard rate for all industries to serve as a common measure of the costs of production. It also follows that there must be a uniform standard of labor efficiency in all industries — something very difficult to assess — to insure against the possible exploitation of one industrial guild by another. Workers in the clothiers' guild, for example, would feel justly aggrieved if they knew that the price paid for their cloth was unnecessarily enhanced through the inefficiency of the textile workers or through the fact of the latter's being paid at a higher rate for their services. An endless source of difficulties is thus provided by the absence of free and voluntary exchange of

commodities as the means of determining value and price.

In closing it may be pointed out that the countries in which differential remuneration and capitalist methods of production have been carried to their farthest extent are, generally speaking, those in which the working classes enjoy the greatest amount of freedom and prosperity. The reason for this can be none other than that such methods are conducive to the greatest industrial efficiency and the greatest national productivity. With such an enormous disparity between the efficiency of labor in Great Britain and in the United States as was indicated earlier in this article, the American people could hardly be expected to regard the success of the Guild movement in Great Britain as an indication that Guild methods of carrying on industry would prove superior to those developed under private enterprise in this country. Capitalism, it must be remembered, is something of an experiment itself, and in the country where it has had its greatest development it has had results not altogether unbeneficial.

It may be that in drawing up this indictment of Guild Socialism we have been unduly critical of what it may pretend already to have accomplished and unduly pessimistic as to what it may be expected to accomplish in the future. Simply to point out obstacles is not to make them insuperable. The academic observer is proverbially a man of doubt; perhaps it is inevitable, even desirable, that he should be so. Yet it is none the less true that while he is engaged in spinning out *a priori* objections to some contemplated social reform, leaders of men may sweep multitudes on with them to a great triumph — or, it may be, to a great tragedy. And after all is over — when the city is built high or lies moldering in ruins — the professor ventures forth

from his study and explains to us how it all happened. Such a non-partisan attitude has much to commend it, yet it should not hazard this advantage by refusing to view with an open mind the programs of social amelioration which more active members of society may have in charge. The powers of the human will, when once roused under the stimulus of a great ideal, envisioned and interpreted by great leaders of men, may be capable of achieving heights quite undreamed of in even our fondest imaginings. At any rate, the student of social science would do well to realize that human actions, especially in those situations where new and untried social stimuli are at play upon the variable elements of human consciousness (those elements whose depths the coarse thumb and finger of a behaviorist psychology have so far failed to plumb), may forever remain to him indeterminable in the kind and degree of stimuli which serve to evoke them, and therefore incalculable in the effects which they may have on the future development of industrial society.<sup>5</sup>

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5. James, of all modern psychologists, was keenest in his perception of this truth. Altho unwilling to subscribe to the conception of will as an absolutely independent variable, he many times laid emphasis in his writings on the indeterminate character of many of the efforts which proceed from that curious synthesis of impulse, feeling, and reason called "will." "Before their indeterminism," he says, "science simply stops. . . . Her prevision will never foretell, even if the effort be completely predestinate, the actual way in which each individual emergency is resolved. . . . Science must be constantly reminded that her purposes are not the only purposes, and that the order of uniform causation which she has use for, and is therefore right in postulating, may be enveloped in a wider order, on which she has no claims at all." *Principles of Psychology*, vol. ii, p. 576.

## COMMUNISM AMONG THE MORMONS

### SUMMARY

Introduction. Relative importance of communism in the economic life of the Mormons. I. Historical background, 135. — Physiographical conditions in Jackson County, Missouri, 137. — The Mormon social body, 137. — II. Joseph Smith's first outline of the United Order. Characteristics of his project, 139. — The first attempt at Independence, 146. — The Mormon "deeds," 147. — Reasons for first failure, 151. — Comparison of the order with contemporaneous communities, 152. — III. The order elsewhere in Missouri, Ohio, and Illinois, 155. — IV. The order in Utah, 156. — Influence of Brigham Young, 158. — His efforts to establish communism, 159. — Outstanding attributes, 162. — History of the Utah plan, 164. — Orderville, 165. — V. Conclusion. Causes of failure, 171. — Hope of future revival, 173.

IN the midst of the controversies that have raged more or less continuously around the Mormon church during the ninety-two years of its existence, many phases of its history, possessing little or no religious bearing, have been almost entirely overlooked. Particularly is this true with respect to the economic aspects of Mormonism. It would appear that the very intensity of the interest displayed in the peculiar Mormon doctrines, both by adherent and opponent, together with what has seemed to be an irresistible desire to give expression to the widely divergent views thereon, has proved a sufficient deterrent to prevent examination of things economic. Some such stumbling block has certainly operated to distract attention, because the economic field in relation to Mormon history, altho showing unique and unusual interest, stands today virtually unexplored by unbiased scholarly investigation. Hence

it is not strange that so little is known of the Mormon attempt to establish a system of communism.<sup>1</sup> Admittedly this particular activity did not exert a strongly determinative influence in the larger courses of Mormon affairs, as did their utilization of irrigation and their institution of coöperative stores and industries. Yet it was of substantial importance and, especially as a comparative study with other existing communistic schemes, merits consideration.

To approach the problem intelligently requires that the underlying causes giving rise to Mormon communism first be outlined. This necessitates a portrayal of the historical background, a brief survey of the physiographical conditions of western Missouri — and later of Utah — and an estimate of the qualities of the Mormon social body, including its leadership. Thereafter the characteristics of the communistic attempts may be described; their salient features enumerated; their history reviewed; and the reasons for their eventual failure ascertained.

It ought to be hardly necessary to suggest that an exposition within these limits has no concern with the Mormon religion as such. Only when religious belief, as a moving cause, is transmuted into economic fact, as a proximate result, does it enter into the scope of this article.

## I

The Church of Jesus Christ of Latter-day Saints was organized at Fayette, Seneca County, New York, on

1. This term is used here in the same sense in which it has universally been applied in America to the communistic systems of the Shakers, Harmonists, Zoarists, Perfectionists and others. It does not include the connotation attached to the International Communists in general and at present to the Russian Communists in particular. What Hinds says in his first edition of *American Communities about American communes* is applicable here. William Alfred Hinds, *American Communities*, 1st ed., Oneida, N. Y., 1878, pp. 159, 160.

Church of Jesus Christ of Latter-day Saints  
organized at Fayette, Seneca County, New York

April 6, 1830.<sup>2</sup> Shortly thereafter its founder, Joseph Smith, dispatched a number of missionaries into Ohio and the West, who, in the course of their journey, came in contact with a small group of "Disciples," or "Campbellites," living at Kirtland, Geauga County, Ohio. So much success was experienced in converting these people and their co-religionists to Mormonism that Smith decided to move his headquarters to Kirtland. Accordingly, in early February, 1831, he reached that place and issued instructions to his followers to assemble there. By the latter part of 1831 this "gathering" had been fairly well accomplished, so much so that most of the members of the new cult had left their previous residences in New York, Pennsylvania, and New England and were living in or near Kirtland.

But the assembly in northern Ohio must be regarded as in fact only a preliminary step to a more ambitious plan which Joseph Smith had in mind. He purported to have received revelations from God designating Jackson County, Missouri, as the modern "Zion" and the "gathering place of the Saints." Independence was to be the headquarters of the church, the scene of its principal activities, and the center of a comprehensive system of proselytizing to be launched in the United States and Canada.<sup>3</sup> In furtherance of this scheme, the missionaries who first reached Kirtland had gone on to Missouri and made a cursory inspection of the country surrounding Independence, reporting later to their leader. Smith himself visited what he was pleased to call the "land of Zion" in July, 1831.<sup>4</sup>

2. *History of the Church of Jesus Christ of Latter-day Saints*, published by the church, Salt Lake City, 1902, vol. i, pp. 75-78. The early volumes are built around the journals of Joseph Smith; the notes are by B. H. Roberts. The six volumes thus far issued bring the history up to 1846, when the Mormons were expelled from Nauvoo, Illinois.

3. *Ibid.*, vol. i, pp. 163, 189, 190, 192, 194, 200, 206 et seq.

4. *Ibid.*, vol. i, p. 188.

Western Missouri at this time had been but sparsely settled. Seven years had yet to elapse before Kansas City was even laid out as a municipality; and Independence, altho the principal town, was little more than a straggling village. The population of Jackson County was made up of frontiersmen — quasi-nomadic farmers, hunters, and trappers, men accustomed to living on the fringes of civilization. Ways of communication and the other conveniences of a more settled country were of necessity the most primitive. But the rolling prairies, with their luxuriant growth of vegetation, rich soil, and plenitude of wild game, had a most pleasing appearance to the youthful Mormon prophet and his followers; no doubts beset their minds as to the desirable qualities of the divinely appointed "New Jerusalem."<sup>5</sup>

These Mormon people who had come together at Kirtland and who now hoped to "go down into Zion" formed an unusual social body. For the most part they had lived previously in the rural districts of Ohio, New England, and the Northern Atlantic States. Typical of country Americans of that period, their antecedents, their traditions, and their environment showed them to be of untainted native stock. Some of them, by previous association with other sects, had experienced various phases of the intense emotionalism so typical of the religious life of the time; but their new cult uprooted them from their surroundings and threw them together under conditions altogether unique. These factors, together with the persecution and ridicule to which they were subjected, brought about naturally the result that their religious unity was unusually strengthened and their wealth was generally limited as to quantity and substantially equal as to distribution. In addition, their peculiar religious organization aided in

5. *History of the Church*, vol. i, pp. 197, 198.

cementing their social cohesion and made them more susceptible of ecclesiastical control.

At the time under consideration this control was concentrated entirely in the hands of Joseph Smith. Believing that his teachings and instructions were based upon divine revelation, the Mormons followed him implicitly. Whatever else others may think of this young man — he was then twenty-six — there can be no doubt that those who accepted his doctrines looked upon him with a reverence almost akin to worship. His word exacted complete obedience and his authority remained unquestioned. As yet the organization of the church had not been worked out in detail, so no precedents could be invoked or followed. Accordingly, whenever an important question of church policy or discipline arose — and often as to less important matters — Smith announced the solution in a new revelation. As he often expressed it: "I inquired of the Lord and received the following."<sup>6</sup> The source of his power, then, lay in the fact that his followers regarded him as the medium through which a benevolently interested Deity exercised control over their destiny. Yet tho he may best be characterized as essentially a visionary and doctrinaire, rather than a master of practical affairs, his personality so thoroly dominated his associates as to constitute his leadership a most important factor in their common action.

## II

Just as the communistic system of the Shakers grew out of the revelations of Ann Lee,<sup>7</sup> that of the Har-

6. *History of the Church*, vol. i, pp. 22, 23, 28, 33, 45, 48, 49, 53, 80, 154, etc.

7. William Alfred Hinds, *American Communities and Coöperative Colonies*, second revision, Chicago, 1908, pp. 34, 38. Hereafter only the second revised edition is referred to and it will be cited, as will Nordhoff's volume, only by the author's name. Charles Nordhoff, *The Communistic Societies of the United States*, New York, 1875, pp. 119, 125-127.



monists from the humanely despotic leadership of George Rapp,<sup>8</sup> the Zoar Community of Separatists from Joseph Bäumeler's "personal communication with the Holy Spirit,"<sup>9</sup> and the group of Amana Inspirationists from the divine inspiration of Christian Metz,<sup>1</sup> so the communism of the Mormons had its inception in the revelations of Joseph Smith. Early in 1830 he announced the ground work of a system of property holding for the faithful in his church which later formed the basis of their community enterprises. Smith advanced no claims of personal authorship of the plan, but claimed divine origin for it; and as such it was accepted by his followers. In view of the fact, as will later develop, that so little data is available as to its actual practice, especially in Missouri, the outline laid down by the Mormon prophet must be given more than ordinary consideration.

Curiously enough his pronouncements did not set out the plan in its entirety, as a well developed whole. Instead, it was promulgated piecemeal, at various times, in several visions, and merely as incidental to other matters. Taking from his revelations those isolated portions applicable to the subject and placing them in the chronological order of their publication, the plan discloses itself as follows:

30. And behold, thou wilt remember the poor, and consecrate of thy properties for their support that which thou hast to impart unto them with a covenant and a deed which cannot be broken;

31. . . . they shall be laid before the bishop of my church and his counselors. . . .

32. And it shall come to pass, that after they are laid before the bishop of my church, and after that he has received these testimonies concerning the consecration of the properties of my church, that they cannot be taken from the church agreeable to my com-

8. Hinds, p. 96.

9. *Ibid.*, p. 129; Nordhoff, pp. 100, 101.

1. Hinds, pp. 304-306; Nordhoff, pp. 26, 27.

mandments; every man shall be made accountable unto me, a steward over his own property, or that which he has received by consecration, inasmuch as is sufficient for himself and family.

33. And again, if there shall be properties in the hands of the church, or any individuals of it, more than is necessary for their support, after this first consecration, which is a residue to be consecrated unto the bishop, it shall be kept to administer to those who have not, from time to time, that every man who has need may be amply supplied, and receive according to his wants.

34. Therefore, the residue shall be kept in my storehouse, to administer to the poor and the needy, as shall be appointed by the High Council of the church, and the bishop and his council.

35. And for the purpose of purchasing lands for the public benefit of the church, and building houses of worship, and building up of the New Jerusalem which is to be hereinafter revealed, . . .

42. Thou shalt not be idle; for he that is idle shall not eat the bread nor wear the garments of the laborer.<sup>2</sup>

3. Wherefore let my servant Edward Partridge, . . . appoint unto this people their portion, every man equal according to their families, according to their circumstances, and their wants and needs.

4. And let my servant Edward Partridge, when he shall appoint a man his portion, give unto him a writing that shall secure unto him his portion, that he shall hold it, even this right and this inheritance in the church, until he transgresses and is not accounted worthy by the voice of the church, according to the laws and covenants of the church, to belong to the church;

5. And if he shall transgress and is not accounted worthy to belong to the church, he shall not have power to claim that portion which he has consecrated unto the bishop for the poor and needy of my church; therefore, he shall not retain the gift, but shall only have claim on that portion that is deeded unto him. . . .

9. And let every man deal honestly, and be alike among this people, and receive alike, that ye may be one. . . .

13. And again, let the bishop appoint a storehouse unto this church, and let all things both in money and in meat, which is more than is needful for the want of this people, be kept in the hands of the bishop.<sup>3</sup>

2. February 9, 1831. *History of the Church*, vol. i, pp. 150, 151; *Doctrine and Covenants*, Sec. 42: 30-35, 42. The last-mentioned volume is the compilation of the revelations of Joseph Smith. Like the Bible, Book of Mormon, and Pearl of Great Price, it constitutes one of the standard and authoritative works of the church and by the Mormons is held in the greatest reverence.

3. May, 1831. *History of the Church*, vol. i, pp. 173, 174; *Doctrine and Covenants*, Sec. 51: 3-5, 9, 13.

5. That you may be equal in the bands of heavenly things; yea, and earthly things also, for the obtaining of heavenly things;

6. For if ye are not equal in earthly things, ye cannot be equal in obtaining heavenly things;<sup>4</sup>

17. And you are to be equal, or in other words, you are to have equal claims on the properties, for the benefit of managing the concerns of your stewardships, every man according to his wants and needs, inasmuch as his wants are just;

18. And all this for the benefit of the church of the living God, that every man may improve upon his talent . . . to be cast into the Lord's storehouse, to become the common property of the whole church.<sup>5</sup>

4. All children have claim upon their parents for their maintenance until they are of age.

5. And after that they have claim upon the church, or in other words upon the Lord's storehouse if their parents have not wherewith to give them inheritances.

6. And the storehouse shall be kept by the consecrations of the church, and widows and orphans shall be provided for, as also the poor.<sup>6</sup>

68. And all moneys that you receive in your stewardships, by improving upon the properties which I have appointed unto you, in houses, or in lands, or in cattle, or in all things save it be the holy and sacred writings, which I have reserved unto myself for holy and sacred purposes, shall be cast into the treasury as fast as you receive moneys. . . .

70. And let not any man among you say that it is his own, for it shall not be called his, nor any part of it;

71. And there shall not any part of it be used, or taken out of the treasury, only by the voice and common consent of the order.

72. And this shall be the voice and common consent of the order; that any man among you say unto the treasurer, I have need of this help to me in my stewardship;

73. . . . the treasurer shall give unto him the sum which he requires, to help him in his stewardship,

74. Until he be found a transgressor, and it is manifest before the council of the order plainly, that he is an unwise and an unfaithful steward;

4. March, 1832. *History of the Church*, vol. i, p. 256; *Doctrine and Covenants*, Sec. 78: 5-6.

5. April 26, 1832. *History of the Church*, vol. i, p. 268; *Doctrine and Covenants*, Sec. 82: 17, 18.

6. April 30, 1832. *History of the Church*, vol. i, p. 270; *Doctrine and Covenants*, Sec. 83: 4-6.

75. But so long as he is in full fellowship, and is faithful, and wise in his stewardship, this shall be his token unto the treasurer, that the treasurer shall not withhold. . . .

77. And in case the treasurer is found an unfaithful, and an unwise steward, he shall be subject to the council and voice of the order, and shall be removed out of his place, and another shall be appointed in his stead.<sup>7</sup>

The excerpts constituting the foregoing meagre outline contain all that was vouchsafed by Joseph Smith in explanation of his purported divine system of community property holding. In the actual installation of the project it is possible that he added materially to his initial statements, but if so, such matters are not of record. Consequently it has remained for other and later Mormon writers to add the superstructure upon the foundation which he laid. Reference must be made, therefore, to these additional sources to facilitate an understanding of the plan, including its peculiar nomenclature.

The system was officially designated the United Order, but occasionally it is referred to in Mormon circles as the "Order of Enoch."<sup>8</sup> The transfer of property to the church in the order was called "consecration," while the status under which members held it was known as "stewardship."

The scheme originally contemplated that each member, upon joining the church, should enter the order. The first step came about in the transfer of all the property of the initiate to a local church officer. This

7. April 23, 1834. *History of the Church*, vol. ii, pp. 59, 60; *Doctrine and Covenants*, Sec. 104: 68-75, 77.

In addition to these instructions on the United Order, the youthful prophet evolved a detailed plan for laying out the City of Zion in square blocks, with lots of prescribed sizes and locations. Provision was made for business sites, farms, and religious buildings. See *History of the Church*, vol. i, pp. 357-359.

8. This appellation comes from "Enoch, the seventh patriarch in descent from Adam," who, according to Mormon theology, practiced the "United Order" successfully in ancient times. See James E. Talmage, *The Articles of Faith*, written by appointment, and published by the church, Salt Lake City, 1901, pp. 358, 362, 450. The author is now an apostle in the church.

included a complete "consecration" of such possessions to the bishop, who thereafter held title to them for and on behalf of the order as "common property of the church."<sup>9</sup> The utilization and administration of the property was then effected by a second transfer from the bishop to the member of such parts of the materials previously "consecrated" as were "according to his wants and needs, inasmuch as his wants are just." This might be "the same farm or workshop that the individual had previously consecrated."<sup>1</sup> The transferee then became a "steward" over the property he held, a position somewhat analogous to that of a trustee at law.<sup>2</sup> Apparently the bishop was to be the judge of the "wants and needs" of the "steward," but the kind and amount of things to be turned over might be determined by the latter's "individual tastes, abilities or capacities."<sup>3</sup> For "the varying grades of occupation will still exist; there will be laborers, whose qualifications fit them best for common toil, and managers who have proved their ability to lead and direct; some who can serve the cause of God best with the pen, others with the plow; there will be engineers

9. "The Lord ordained that every man . . . should consecrate all of his properties. . . . How consecrate it? . . . The law was consecrate all of your properties, whether it be gold or silver, or mules, or wagons, or carriages, or store goods, or anything with wealth in it — all was to be consecrated, to come to the Lord's storehouse. Agents were appointed to receive these consecrations. Not consecrate to any man, or to these agents, but consecrate to the Lord. . . ." Orson Pratt, *Journal of Discourses* (a compilation of the sermons of Mormon leaders), vol. xvi, p. 153, August 16, 1873. Elder Pratt was an apostle under both Joseph Smith and Brigham Young and was regarded as the most learned man among the Mormons of his time.

1. Orson F. Whitney, *History of Utah*, Salt Lake City, 1892, vol. i, p. 84. This writer's views may be accepted as authoritative with respect to their orthodoxy, because at the time of the publication of his history he was a Mormon bishop and at present is an apostle.

2. "What is a steward? Is he a bona fide holder of property? No. If I were called upon to be a steward over a certain farm or factory, the business is not my own. I am only as an agent or steward to take charge of the concern and act upon it, as a wise steward, and to render up my account to somebody. . . ." Orson Pratt, *Journal of Discourses*, vol. xvi, p. 154, August 16, 1873.

3. B. H. Roberts, *New Witness for God*, Salt Lake City, 1911, vol. i, p. 399. Mr. Roberts is a high official in the Mormon church and probably its leading publicist.

and mechanics, artisans and artists, farmers and scholars, teachers, professors, and authors; — everyone laboring as far as practicable in the sphere of his choice, but each required to work, and to work where and how he can be of the greatest service.”<sup>4</sup>

Having once obtained the property constituting his “stewardship,” the individual was required to manage it in such a way as to effect the most good for and the greatest profit to the order. Each year he was supposed to render an account of his holdings.<sup>5</sup> Any residue over and above the amount required for the support of himself and his immediate dependents must be returned to the bishop as a surplus. This surplus was to be used “first, in supplying the deficiency where stewardships fail to yield sufficient income for the necessities of those who possess them; second, to form or purchase new stewardships for such as have not received any; third, to supply those with means who may need it for the improvement or enlargement of their respective stewardships; fourth, the purchase of lands for the public benefit, to establish new enterprises, develop resources, build houses of worship, temples, send abroad the Gospel, or for anything else that looks to the general welfare and the founding of the Kingdom of God on earth.”<sup>6</sup> To these purposes should be added the support of the poor, the aged, and other groups, who, by reason of physical, mental or other incapacity, are non-productive.

4. James E. Talmage, *The Articles of Faith*, p. 452.

5. “To whom does he render this report or account? To the Lord’s bishop . . . ; he reports what he has done with the means entrusted to his care. If a man has been entrusted with fifty or a thousand or with a million, to carry on some branch of business, he must, at the end of the year, render an account of that stewardship. If a man is only entrusted with a small farm, he renders an account of his stewardship at the end of the year . . . consecrating, at the end of the year, all that they have gained, excepting what it has cost to feed and clothe them.” Orson Pratt, *Journal of Discourses*, vol. xvi, pp. 4, 5, April 7, 1873.

6. B. H. Roberts, *New Witness for God*, vol. i, p. 399.

It would seem that the length of tenure of a "stewardship" was unlimited. Apparently as long as the member showed managerial capacity as to his holdings and complied with church regulations, he might retain his position; but apostacy or unfaithfulness would cause his prompt ejection. In such case he could assert no claim to the goods he originally "dedicated" to the order, but only to that held at the time in "stewardship," which might be more or less than the amount initially brought in.

Little is said in Joseph Smith's exposition as to the practical management of his system, but presumably it was intended that the detailed church organization should perform that function. Within the plan itself the only provision as to duties of officers relates to the bishop, who is the recipient of all "dedicated" property, the apportioner of "stewardships,"<sup>7</sup> and the custodian of all surplus earnings of "stewardships." He might be replaced for being an unwise and unfaithful "steward."

Such were the salient features of the plan as sponsored

7. The following excerpts from a letter written by Joseph Smith to Bishop Edward Partridge some time in 1833 throw some light on this point:

"Brother Edward Partridge:

Sir:—I proceed to answer your questions, concerning the consecration of property:—First, it is not right to condescend to very great particulars in taking inventories. The fact is this, a man is bound by the law of the Church, to consecrate to the Bishop, before he can be considered a legal heir to the kingdom of Zion; and this, too, without constraint; and unless he does this, he cannot be acknowledged before the Lord on the Church Book: therefore, to condescend to particulars, I will tell you that every man must be his own judge how much he should receive, and how much he should suffer to remain in the hands of the Bishop. I speak of those who consecrate more than they need for the support of themselves and their families.

The matter of consecration must be done by the mutual consent of both parties; for to give the Bishop power to say how much every man shall have, and he be obliged to comply with the Bishop's judgment, is giving to the Bishop more power than a king has; and, upon the other hand, to let every man say how much he needs, and the Bishop be obliged to comply with his judgment, is to throw Zion into confusion, and make a slave of the Bishop. The fact is, there must be a balance or equilibrium of power between the Bishop and the people; and thus harmony and good-will may be preserved among you.

Therefore, those persons consecrating property to the Bishop in Zion, and then receiving an inheritance back, must reasonably show to the Bishop that they need as much as they claim. . . ." History of the Church, vol. i, pp. 364, 365.

by Joseph Smith and elaborated by his successors.<sup>8</sup> The question next arises as to how it worked out in actual practice. As previously pointed out, the first attempt was made in Independence, Missouri, but unfortunately it proved to be an abortive one. The cause lay not in the system itself, but arose from the fact that before the order was fairly under way the entire Mormon body was expelled by its neighbors from Jackson County and later from Missouri entirely. But the installation of the plan had progressed far enough that some of its principal objects were well along the road of realization and many of its chief characteristics were brought to light.

The Mormons whom Joseph Smith first sent to Independence in 1831 were, generally speaking, a selected lot. His first object being to start the nucleus of a colony there, he designated the leaders from among his most trusted lieutenants and sent as their colleagues only those in whom he had confidence. The initial group carried out the process of selection still further by insisting shortly after their arrival that their co-religionists who contemplated joining them should come only when equipped in some measure at least to contribute to the earning power of the body.<sup>9</sup> Thus, so far as the personnel was concerned, the practice of the order started under as favorable auspices as could be brought about by the Mormons.

Some of these people possessed a small measure of financial independence upon their arrival, but it is doubtful that many could boast of more than the ordinary necessities. The majority had been drawn

8. It is only fair to state at this point that modern Mormon writers not only deny that the "United Order" may be classed as communism, but go farther and insist that communistic schemes thus far devised compare most unfavorably with it. See Orson F. Whitney, *History of Utah*, vol. i, pp. 82, 83; James E. Talmage, *The Articles of Faith*, p. 462; B. H. Roberts, *New Witness for God*, vol. i, pp. 393, 403.

9. *History of the Church*, vol. i, p. 279, 384, 385.



from the farmer class and agriculture was intended, of course, to be the basis of their activity. Hence little groups settled not only in Independence, but elsewhere nearby in Jackson County. All, however, came under the jurisdiction of Bishop Partridge, whose headquarters remained at that place. Eventually probably 1200 Mormons<sup>1</sup> had migrated to this part of Missouri.

But tilling the soil did not make up entirely the economic pursuits practiced by the order. Coincident with the founding of "Zion," Joseph Smith contemplated the establishment of a periodical called the *Evening and Morning Star* for use in furthering Mormon propaganda. To this end he had collected sufficient money in Kirtland to purchase a printing press. This he sent to Independence under the direct charge of a man whom he designated as editor and manager. It was shortly placed in operation and several issues of the *Star* put out. Moreover, a store was started to serve the needs of the order. Two of the earliest converts in Kirtland, Newell K. Whitney and A. S. Gilbert, owned a general mercantile business and Smith directed them to send part of their stock to Zion.<sup>2</sup> This was done and the store commenced to function shortly thereafter.

Just what proportion of the Mormons in Jackson County turned in their property to the United Order is difficult to determine. The church records are regrettably vague on this point, but the available evidence indicates that the great majority did so. Definite it is that both the printing press and the store were "consecrated," altho the proceeds from the former, as set out in the prophet's revelations heretofore quoted, were to be used for a special purpose. Furthermore, it seems

1. History of the Church, vol. i, p. 438, footnote.

2. Ibid., vol. i, p. 270.

to have been the practice for the bishop to turn back to the donor, as his "stewardship," the identical property he had "dedicated." Some of the "consecrated" property was utilized to purchase land in Jackson County, such land being in turn leased out in "stewardship."<sup>3</sup>

In accordance with the plan, both of these transfers were evidenced by documents. The authorship of these "deeds which cannot be broken" is entirely uncertain. In form the instrument of "consecration" was as set out below:

BE IT KNOWN, THAT I, Titus Billings of Jackson county, and the state of Missouri, having become a member of the Church of Christ, organized according to law, and established by the revelations of the Lord, on the 6th day of April, 1830, do, of my own free will and accord, having first paid my just debts, grant and hereby give unto Edward Partridge of Jackson county, and state of Missouri, Bishop of said Church, the following described property, viz.: — Sundry articles of furniture valued fifty-five dollars twenty-seven cents; also two beds, bedding and extra clothing valued seventy-three dollars twenty-five cents; also farming utensils valued forty-one dollars; also one horse, two wagons, two cows and two calves, valued one hundred forty-seven dollars.

For the purpose of purchasing lands in Jackson county, Mo., and building up the New Jerusalem, even Zion, and for relieving the wants of the poor and needy. For which I, the said Titus Billings, do covenant and bind myself and my heirs forever, to release all my right and interest to the above described property, unto him, the said Edward Partridge, Bishop of said Church.

And I, the said Edward Partridge, Bishop of said Church, having received the above described property, of the said Titus Billings, do bind myself, that I will cause the same to be expended for the above-mentioned purposes of the said Titus Billings to the satisfaction of said Church; and in case I should be removed from the office of Bishop of said Church, by death or otherwise, I hereby bind myself and my heirs forever, to make over to my successor in

3. See Orson Pratt, *Journal of Discourses*, vol. xvii, p. 103, June 14, 1874. "I understand that \$318,000 in money was paid by the Saints to the United States for lands in the State of Missouri. . . ." George A. Smith, *Journal of Discourses*, vol. xvii, p. 60, May 7, 1874. This sum included the purchase price of lands in Caldwell and elsewhere and is not limited to Jackson County.

office, for the benefit of said Church, all the above described property, which may then be in my possession.

IN TESTIMONY WHEREOF, we have hereunto set our hands and seals this . . . day of . . . , in the year of our Lord, one thousand eight hundred and thirty. . . .

In presence of { .....

Signed { TITUS BILLINGS  
EDWARD PARTRIDGE }

The stewardship deed reads as follows:

BE IT KNOWN, THAT I, Edward Partridge, of Jackson county, state of Missouri, Bishop of the Church of Christ, organized according to law, and established by the revelations of the Lord, on the 6th day of April, 1830, have leased, and by these presents do lease unto Titus Billings, of Jackson county, and state of Missouri, a member of said Church, the following described piece or parcel of land, being a part of section No. three, township No. forty-nine, range No. thirty-two, situated in Jackson county, and state of Missouri, and is bounded as follows, viz.:—Beginning eighty rods E. from the S. W. corner of said section; thence N. one hundred and sixty rods; thence E. twenty-seven rods twenty-five links; thence S. one hundred and sixty rods; thence W. twenty-seven rods twenty-five links, to the place of beginning, containing twenty-seven and one-half acres, be the same more or less, subject to roads and highways. And also have loaned the following described property, viz.:—Sundry articles of furniture, valued fifty-five dollars twenty-five cents; also two beds, bedding and clothing, valued seventy-three dollars twenty-seven cents; also sundry farming utensils, valued forty-one dollars; also one horse, two cows, two calves, and two wagons, valued one hundred forty-seven dollars, to have and to hold the above described property, by him, the said Titus Billings, to be used and occupied as to him shall seem meet and proper.

And as a consideration for the use of the above described property, I, the said Titus Billings, do bind myself to pay the taxes, and also to pay yearly unto the said Edward Partridge, Bishop of said Church, or his successor in office, for the benefit of said Church, all that I shall make or accumulate more than is needful for the support and comfort of myself and family. And it is agreed by the parties, that this lease and loan shall be binding during the life of the said Titus Billings unless he transgresses, and is not deemed worthy by the authority of the Church, according to its laws, to

belong to the Church. And in that case I, the said Titus Billings, do acknowledge that I forfeit all claim to the above described leased and loaned property, and hereby bind myself to give back the lease, and also pay an equivalent for the loaned articles, for the benefit of said Church, unto the said Edward Partridge, Bishop of said Church, or his successor in office. And further, in case of said Titus Billings' or family's inability in consequence of infirmity or old age, to provide for themselves while members of this Church, I, the said Edward Partridge, Bishop of said Church, do bind myself to administer to their necessities out of any fund in my hands appropriated for that purpose, not otherwise disposed of, to the satisfaction of the Church. And further, in case of the death of the said Titus Billings, his wife or widow, being at the time a member of said Church, has claim upon the above described leased and loaned property, upon precisely the same conditions that her said husband had them, as above described; and the children of the said Titus Billings, in case of the death of both their parents, also have claim upon the above described property, for their support, until they shall become of age, and no longer; subject to the same conditions yearly that their parents were; provided, however, should the parents not be members of said Church and in possession of the above described property at the time of their deaths, the claim of the children as above described, is null and void.

IN TESTIMONY WHEREOF, we have hereunto set our hands and seals this . . . day of . . . , in the year of our Lord, one thousand eight hundred and thirty. . . .

In presence of {  
.....  
.....

Signed { EDWARD PARTRIDGE  
TITUS BILLINGS<sup>5</sup>

It is extremely doubtful that the order reached the stage where a surplus was obtained by any member from his "stewardship."<sup>6</sup> Nothing definite can be stated, therefore, as a result of the first attempt, on the practicability of the plan to utilize the surplus as contemplated. Nor did experience with it go so far in

5. History of the Church, vol. i, pp. 366, 367.

6. "I was present at the time the revelation came for the brethren to give their surplus property into the hands of the Bishops for the building up of Zion, but I never knew a man yet who had a dollar of surplus property. No matter how much one might have, he wanted all he had for himself, for his children, his grandchildren and so forth." Brigham Young, Journal of Discourses, vol. xvi, p. 11, April 17, 1873.

other respects as to make it a fair criterion by which the system might be judged. For it was hardly well under way before the people of Jackson County and the surrounding territory drove the Mormons bodily out of the county, necessitating the abandonment of their property and the discontinuance of the practice of the order. A detailed study of the plan, as disclosed by the first attempt at its practice is, therefore, impossible. Certain definite conclusions may be drawn, however, as to the relation of this attempt with the conditions surrounding it.

In the first place, it must be laid down as indisputable that the Mormon enterprise of communism stood in no relation of effect and cause with the physical conditions obtaining where its practice was essayed. Nothing can be pointed to in connection with the soil, climate, or physiographical characteristics of western Missouri which tended to produce communism rather than some other form of economic life. Nor is the fact that agriculture formed the basis of the system of controlling weight, for such would have been the case elsewhere. Again, it is apparent that the order was not evolved from any unique qualities of the Mormon people. Their records disclose no intimation that any impulse had existed theretofore on their part toward communistic endeavor, or any effort been made to try it. Of course, the close cohesion of the Mormons, arising from their religious system, together with their amenability to church discipline, formed most favorable factors towards the unity and centralized control so necessary to communistic success; but these circumstances alone, without extraneous action upon them, would have produced no results whatever in this connection. The conclusion is inevitable that the genesis of the United Order must be accounted for on grounds

separate from the physical conditions of western Missouri and the social nature of the Mormons. The fact is that it was a scheme superimposed upon these factors by the fiat of Joseph Smith, possibly because of their adaptability to what he intended, but in its origin entirely foreign to both of them.

It is worth while, however, to ascertain the extent to which the order may be traced to the various communistic enterprises which existed in the United States at the time of its establishment.

The first case of communism encountered by the Mormons was in Kirtland itself. The Campbellites, who accepted Mormonism here in the beginning, had previously lived in some form of community property holding,<sup>7</sup> for they referred to themselves as the "family" and their association as "common stock." Nothing can be determined as to the characteristics of this concern except that it was an avowed effort to imitate the apostolic Christians. But it met with the disapproval of the prophet, who states that it "was readily abandoned for the more perfect law of the Lord; and the false spirits were easily discerned and rejected by the light of revelation."<sup>8</sup>

The next contact between Mormonism and communism came with the Shakers. Sometime in March, 1831, "Leman Copley, one of the sect called Shaking Quakers, embraced the fullness of the everlasting Gospel, apparently honest-hearted, but still retaining the idea that the Shakers were right in some particulars of their faith."<sup>9</sup> Smith thereupon announced a revelation directed particularly to Copley and two others in which the latter were commanded to return to the new

7. *History of the Church*, vol. i, p. 124.

8. *Ibid.*, vol. i, pp. 146, 147.

9. *Ibid.*, vol. i, p. 167.

convert's erstwhile co-religionists and preach his newly found creed. In the revelation the celibacy of the Shakers was condemned and, referring no doubt to Ann Lee's pretensions as to the reincarnation of Christ,<sup>1</sup> it was stated that "the Son of Man cometh not in the form of a woman."<sup>2</sup> But the success of the mission to these people thus ordered was only what might have been expected in the light of their steadfastness and fervor — not a single Shaker was converted.<sup>3</sup>

At this time four Shaker colonies flourished in Ohio.<sup>4</sup> That at North Union, in the vicinity of Cleveland, was the nearest to Kirtland, while the Watervliet, White Water, and Union Village groups, in the southern part of the state, were not inaccessible from that place. Thus, aside from the information obtainable from Leman Copley, the Mormon representatives in Ohio, as well as in New York, had ample opportunity to observe the Shaker practices. But it is evident that the United Order of the Latter-day Saints did not originate with the Shakers — the only common thing between the two was that both came within the category of communism. The strict separation of the sexes enjoined by the Shakers certainly was never adopted by the Mormons. And where communism was a fundamental of the Shaker cult, it has already been made

1. Nordhoff, pp. 132, 133.

2. *History of the Church* vol. i, p. 169.

3. "Elders Rigdon and Pratt fulfilled the mission appointed to them by this revelation. In company with Leman Copley, who at his own earnest request had been ordained to the priesthood (*John Whitmer's History of the Church*, p. 20), they visited the settlement of the Shakers, near Cleveland, Ohio, and preached the Gospel to them; 'but,' writes Elder Pratt, 'they utterly refused to hear or obey the Gospel.' — *Autobiography of Parley P. Pratt*, p. 65 (first ed.). John Whitmer also remarks upon this incident: 'The above-named brethern went and proclaimed [the Gospel] according to the revelation given them, but the Shakers hearkened not to their words and received not the Gospel at that time; for they are bound in tradition and priestcraft; and thus they are led away with vain and foolish imaginations.' — *John Whitmer's History of the Church*, MS., p. 20." *History of the Church*, vol. i, p. 169, footnote.

4. See the map in Nordhoff, p. 23.

clear that the order, at least as it actually worked out, formed a mere adjunct to the Mormon creed. Nor does a study of the Shaker system reveal anything similar to the "consecration" and "stewardship" of the United Order.<sup>5</sup>

Another communistic society which might have come within the observation of the Mormons in the early thirties was the Separatists of Zoar, Tuscarawas County, Ohio. Mormon histories make no mention of this group, altho it seems possible some of their missionaries might have encountered them. But nothing like the two Zoar classes of probationary and full membership ever appeared in the Mormon order; nor is the Zoar covenant more than superficially similar to the Mormon "deeds." Moreover, the forms of government were admittedly entirely different.<sup>6</sup>

Similarly, Mormon itinerant preachers might have reached the Rappists, or Harmony Society, before 1831 in their third and final home at Economy, near Pittsburgh; but no record is to be found to that effect. Here again the dissimilarity between the partial celibacy of the Harmonists and the Mormon views on marriage precludes any idea of copying by the latter. But some resemblance does show between the Articles of Association of the Rappists and the Mormon "deeds."<sup>7</sup>

This brief survey of possible connections between the Mormons and existing communes suffices to show that from the available evidence the United Order was not derived primarily from sources outside the Mormon creed. The general idea of communism might very well have been taken from the Shakers and with less likelihood from the Zoar Separatists or Harmonists — altho with respect to the last two such a derivation

5. Nordhoff, pp. 117-232; Hinds, pp. 32-68.

6. Nordhoff, pp. 105-107; Hinds, pp. 113-119.

7. Nordhoff, p. 81; Hinds, pp. 89-98.



is purely conjectural. But it is clear that the peculiar characteristics of the Mormon order were original — their "consecration," their "stewardship," their unique disposition of surplus, their system of government.

### III

Altho, after leaving Jackson County, some of the Mormons settled in Caldwell County and other parts of Missouri, their sojourn proved to be only temporary; and it is extremely doubtful that any other attempt was made in that state to practice the United Order.<sup>8</sup> After their exodus from Missouri the main body of the church returned to Ohio. Under Joseph Smith's directions there had apparently been some steps taken to institute the order in Kirtland almost simultaneously with its inception in Independence. In any event, on December 4, 1831, Smith ordered that the Kirtland order should be distinct and separate from that in Missouri.<sup>9</sup> Even so, as judged from the available evidence, practically nothing was accomplished towards its consummation. Other matters of more immediate and pressing importance seem to have engrossed the attention of the young leader to the neglect of his communistic aims. The Mormon records of the time show a marked paucity of mention of the order during the second sojourn of the church in Ohio. Nor did it again assume a place of importance in Mormon affairs when the entire body was moved to Illinois and the city of

8. The only available record of a revival of the order in Missouri is found in the statement made by George A. Smith, one of President Young's counselors, May 7, 1874:

"In 1838, an attempt was made in Caldwell County, Missouri, the Latter-day Saints owning all the lands in the County, or all that were considered of any value. They organized Big Field United Firms, by which they intended to consolidate their property and to regard it as the property of the Lord, and themselves only as stewards; but they had not advanced so far in this matter as to perfect their system before they were broken up and driven from the State." *Journal of Discourses*, vol. xvii, p. 60.

9. Orson F. Whitney, *History of Utah*, vol. i, p. 92.

Nauvoo was founded. Indeed, Joseph Smith, who when announcing the plan emphasized it as of the most vital moment for the temporal and spiritual salvation of his people, neglected it, curiously enough, during the rest of his life after the first failure in Missouri. The value placed on it by the Mormons themselves may be gathered from the fact that altho they lived in Nauvoo almost seven years, altho they were practically unmolested during the greater part of this period, altho the city attained a population of 20,000,<sup>1</sup> and altho other church activities were developed to the fullest extent, nothing whatever was done to revive the United Order. Indeed, the only communistic enterprise launched in Nauvoo was by the Icarians, founded by Etienne Cabet, and this did not eventuate until May, 1850.<sup>2</sup> But by that date Joseph Smith had been killed by an Illinois mob, the church had been expelled from Nauvoo, and Brigham Young, the murdered founder's successor, had led the Mormons across the plains to the Rocky Mountains and established there the beginnings of the state of Utah.

#### IV

How the Mormons, upon their arrival in Utah in 1847, found their new dwelling place to be but a forbidding desert; how, in the realization that they must either be self-supporting or succumb to starvation, they set about to establish themselves upon the soil; how the surrounding conditions and the nature of their social fabric led to a practice of irrigation based on coöperative principles; how, after tremendous difficulties and hardships, they eventually prospered; how they later instituted a system of coöperative stores and

1. *History of Utah*, vol. i, p. 276.

2. *Hinds*, p. 369; *Nordhoff*, p. 334.

industries; how finally they spread into most of the neighboring states in the Great Basin — these matters, tho possessing their own interest, must be passed over here entirely, except by way of furnishing continuity to the theme under consideration.<sup>3</sup> What should be noted, however, is that the economic life of the Mormons in this period took its direction and form from the conditions under which they lived. No better example of the response of economic activity to environmental influence is found anywhere. Whatever other minor elements are discovered to be involved, a study of the situation leads inevitably to the conclusion that two factors were chiefly effective, namely, the physiographical conditions of the Great Basin and the Mormon social make-up.

Nothing is more remarkable than the fact that during this time the Mormons found no time in their activities for the United Order. For almost thirty years they made no attempt whatsoever to reestablish a practice which they believed to be of divine origin and capable of bringing about economic perfection. Other communistic societies invariably utilized their particular systems at the very beginning and as the most important means of starting them on the way towards financial independence. In no case was it superimposed upon a group after such group had attained some measure of economic advancement. But with the Mormons the matter was otherwise. Their communistic scheme was in no way initially employed in Utah as the means to produce their livelihood and extend their domain. Why they so neglected the order is difficult to understand in view of the manner in which it was first promulgated. But it cannot be stated with accuracy that they had entirely lost faith in Joseph

3. For a discussion of these matters see "Coöperation Among the Mormons," by the present writer, in the May, 1917, number of the Quarterly Journal of Economics.

Smith's plan; the only explanation vouchsafed by their leaders was that the people, as a whole, had not yet reached such a state of unselfishness that the order could be conducted successfully. That this handicap would eventually be overcome the Mormon chiefs undoubtedly believed. Finally, in 1873, Brigham Young decided that the time was opportune, and began preparations to essay another trial of the system.

Inasmuch as no estimate of Mormon communism in Utah can be formed without reference to this man, something should be said at this point about his personality and characteristics. Just as Joseph Smith dominated the spiritual and temporal activities of his followers in the early days of the church, so Brigham Young, in much greater measure, controlled the religious, social, economic, and political life of the Latter-day Saints. As supreme head of the church organization, which by this time had been worked out in meticulous detail and was functioning with astonishing efficiency; as the final arbiter of all questions of doctrine and practice; as the custodian of all church property; and as the first federally appointed governor of the Territory, his power was virtually without limit. Nor can it fairly be denied that he displayed a peculiar fitness and ability to fill the unusual position he held and to exercise the extraordinary functions which lay within his power. If he was by nature measurably autocratic, the very forcefulness and thoroughness of his leadership furnished exactly the qualities needed to bring his pioneer people, as a body and with the least possible friction, past the undeniably difficult problems which faced them. Even if he was the unquestioned master of their activities, he knew instinctively how to use his power for the accomplishment of common purposes. Regardless of what may be thought of his teachings, history can point to

few men who were his peers as successful colonizers. Essentially he showed himself a man of practical affairs. Unlike Joseph Smith, he never purported to receive a single revelation during all the time he presided over the Mormon church in Utah — his chief concern centered apparently in mundane rather than celestial matters. Hence when he decided that his people should again take up the United Order, it was a foregone conclusion that such would be done.

With the full influence of his power behind his every word, President Young, early in 1873, commenced to advocate the installation of a method of holding property in common. He excused the delay thus far suffered on the ground that he had not yet been able to work out a plan of legal organization "that lawyers cannot pick to pieces and destroy."<sup>4</sup> His aim was all-inclusive — nothing less than "to organize the Latter-day Saints, every man, woman and child among them, who has a desire to be organized, into this holy order."<sup>5</sup> A society was to be established in each Mormon settlement and all were to be component parts of a great system over which the general authorities of the church were to exercise control. While the proposed scheme was not formulated and published in complete detail at first, the objects the Mormon leader hoped to attain were clearly presented. In his own words they were:

Our object is to labor for the benefit of the whole; to retrench in our expenditures; to be prudent and economical; to study well the necessities of the community, and to pass by its many useless wants; to study to secure life, health, wealth and union, which is power and influence to any community.<sup>6</sup>

4. *Journal of Discourses*, vol. xvi, p. 122, June 29, 1873.

5. *Ibid.*, vol. xvii, p. 43, April 18, 1874.

6. *Ibid.*, vol. xvii, p. 57, May 7, 1874. That Brigham Young was extremely enthusiastic about his aspirations in this field appears from an address made in Salt Lake City, April 17, 1873, excerpts from which are as follows:

"... I know how to start such a society right in this city, and how to make its members rich. I would . . . buy out the poorest ward in this city, and then commence

Early in 1874 Brigham Young began to organize his followers. He undertook the initial move in St. George, Washington County, in the extreme southwestern part of the Territory, where the population was almost exclusively Mormon. Here he installed his machinery and placed it in running order. Then, as he moved northward towards Salt Lake City, he stopped in the principal Mormon settlements a sufficiently long time to establish a local group. As the news of the movement spread, many of the towns anticipated his forthcoming visit and adopted his suggestions of their own initiative. In addition he later sent out his immediate subordinates throughout the Territory to carry on the work of organization. Thus it resulted that by the time of the semi-annual conference, continued this year to May, the Mormon people had been brought into the plan with characteristic thoroughness, even including a number of wards in Salt Lake City. At this conference the speakers, by command of their chief, devoted their remarks chiefly to the new development. Finally, a central organization was effected for the entire project.<sup>7</sup>

It is not advisable to set forth in detail here the instructions which Brigham Young gave to his people while on his southern tour. In full realization of his power, he appreciated that his efforts must be concen-

with men and women who have not a dollar in the world. Bring them here from England, or any part of the earth, set them down in this ward and put them to work, and in five years we would begin to enter other wards, and we would buy this house and that house, and we would add ward to ward until we owned the whole city. . . . Would you like to know how to do this? I can tell you in a very few words — never want a thing you cannot get, live within your means, manufacture that which you wear, and raise that which you eat. Raise every calf and lamb; raise the chickens and have your eggs, make your butter and cheese, and always have a little to spare. The first year we raise a crop, and we have more than we want. We buy nothing, we sell a little. The next year we raise more; we buy nothing and we sell more. In this way we could pile the gold and silver up and in twenty years a hundred families working like this could buy out their neighbors." *Journal of Discourses*, vol. xvi, p. 11.

7. Orson F. Whitney, *History of Utah*, vol. ii, pp. 839, 840.

trated along the line of explaining his scheme, rather than advocating its adoption — the latter might fairly be expected to follow as a matter of course. Characteristically he mixed a good deal of his religious philosophy with his economics; and he did not hesitate to expound the most unimportant detail of his plan or to discuss its effect on the most intimate of the social relationships. Parts of an address made in Nephi, Juab County, April 18, 1874, may be cited as typical:

And what are we to have when we enter this order? What we need to drink, eat and wear, and strict obedience to the requirements of those whom the Lord sets to guide and direct; that our sisters, instead of teasing their husbands for a dollar, five dollars, twenty-five dollars, for a fine dress, bonnet or artificials for themselves or their daughters, may go to work and learn how to make all these things for themselves, being organized into societies or classes for that purpose. And the brethren will be organized to do their farming, herding and raising cattle, sheep, fruit, grain and vegetables; and when they have raised these products every particle be gathered into a storehouse or storehouses, and every one have what is needed to sustain him. . . .

Organize the brethren and sisters and let each and every one have their duties to perform. Where they are destitute of houses, and it is convenient, the most economical plan that can be adopted is to have buildings erected large enough to accommodate a number of families. For instance, we will say there are a hundred families in this place who have not houses fit to live in. We will erect a building large enough to accommodate them all comfortably with every convenience for cooking, washing, ironing, etc.; and then, instead of each one of a hundred women getting up in the morning to cook breakfast for father and the large boys, that they may go to their labor, while the little children are crying and needing attention, breakfast for the whole can be prepared by five or ten women, with a man or two to help. Some may say — "This would be confusion." Not at all, it would do away with it. Another one says — "It will be a great trial to my feelings if I am obliged to go to breakfast with all these men and women. I am faint and sick and do not eat much, and I want my breakfast prepared in peace." Then build side rooms by the dozen or score, where you can eat by yourselves; and if you wish to invite three or four to eat with you, have your table, and everything you call for is sent to you. "Well, but I do not like this confusion of children." Let the children have their dining room to themselves, and let a certain number of the sisters be appointed to

take charge of the nursery and see that they have proper food, in proper quantities and at proper times, so as to preserve system and good order as far as possible. . . . Then let there be good teachers in the schoolroom and have beautiful gardens and take the little folks out and show them the beautiful flowers and teach them in their childhood the names and properties of every flower and plant. . . .<sup>8</sup>

It might fairly have been anticipated that Brigham Young, in his rejuvenation of communism, would base his efforts on the United Order plan which Joseph Smith claimed to have received by revelation. Such, however, was decidedly not the case.<sup>9</sup> Except for occasional references thereto by Orson Pratt, Smith's plan of "consecration" and "stewardship" did not figure in the Utah movement. The latter showed entirely different characteristics and attributes. First of all, the Mormon leader insisted that each local society be incorporated in legal form. To the common corporation, whose officers in general were the local ecclesiastical authorities, was transferred such property as formed the basis of the enterprise. Ordinarily this did not include the lands and houses of the members, nor the stores and business institutions already existing. Occasionally, however, property of these kinds was acquired by the corporation after it had existed for some time. What the members did contribute was cash, produce, implements, fixtures, and their labor. The intention apparently was to perform the community work on a common basis. Thus the labor on the farms, the grazing of the cattle and sheep, the operation of

8. *Journal of Discourses*, vol. xvii, pp. 44, 45.

9. "Inquires one, 'What is it, what kind of an order is it? Tell us all about it.' I would tell you as much as I thought was wisdom if I understood it myself; but I do not; I have had but very little information about it. Suffice to say that I know that the order of things that could have been carried out successfully in Jackson County cannot be carried out here, on the same principle without a little variation. It cannot be done—circumstances require different laws, different counsel, an order of things suited to the condition of this desert county." Orson Pratt, *Journal of Discourses*, vol. xvii, p. 35, April 6, 1874.



grist mills, saw mills, and similar establishments, the providing of wood from the nearby canyons — all such tasks were to be consummated for the people as a whole and not for individuals. All products from these undertakings were turned over to the general corporation for distribution to the members. Such division was presumably effected, not in accordance with services rendered, but upon a per capita basis on the assumption that the needs of all members were substantially similar. The direction of affairs, the division of labor, and the distribution of products lay in the hands of the local church authorities acting as the officers of the incorporated order. In effect, then, what the Mormons carried out was not a system of communistic property holding, but a plan of common, united effort with a supervised division of labor and distribution of proceeds.

The genesis of such a scheme is not difficult of ascertainment. Since 1847 the Mormons had successfully established and maintained their irrigation projects on a basis of general, united participation. Furthermore, since, 1868, they had profitably operated a chain of coöperative stores. What Brigham Young no doubt had in mind was to apply to all the other economic functions of his followers the same general principles. This is evident not only from his incorporation of each settlement and his leaving out the coöperative stores, but also in the other fundamental characteristics of his plan.

Here again, as in the earlier Missouri case, the data on the actual working out of the design is somewhat meagre — and for precisely the same reason, namely, its short duration. Definite it is, however, that the new order met with greater success in the younger settlements than in the older, well-established towns. But in gen-

eral the experience of all was substantially the same. Hence what happened in one place will be illustrative of the experience of others. At the time under consideration, Price was a small Mormon village in Carbon County, in the eastern part of the Territory. George Q. Cannon, one of the Mormon apostles, visited Price soon after the order had been installed and in a subsequent address delineated his observations. The people had not turned in their property to a common fund, but they were pooling their labor. The bishop made assignments to the various tasks and supervised the work otherwise. All the inhabitants ate at one table and the women cooked together. They had previously tried to do their laundry work jointly, but that proved inexpedient and was abandoned. No attempt was essayed to erect and live in one or more large dwellings. Cannon describes the daily routine as follows:

After rising in the morning they meet in one room together and have prayers; then they sit down to breakfast, and while at breakfast the Superintendent converses with the men as to the arrangements of labor for the day. After breakfast they go to their work, one to one department, one to another. At noon they again assemble for dinner, eat their dinner after having asked a blessing upon it and then spend a little leisure until one o'clock or the hour expires — and then resume their labors. They come together again in the evening when they have supper and attend to prayers and spend the remainder of the evening in social conversation or in conversation on business or in arranging their affairs, as the case may be.<sup>1</sup>

But in spite of all the preparations and exhortations made by Brigham Young, his order was extremely short-lived. No sooner had it commenced to function than dissensions appeared. In some places certain individuals had not gone into the company and their apparent ability to prosper in equal measure with members aroused dissatisfaction. Again, men within the group soon began to pay more attention to that portion of

1. *Journal of Discourses*, vol. xvii, pp. 237, 238, October 8, 1874.

their property which they had kept out than to the welfare of the organization — and this neglect rankled. Moreover, since distribution was made in substantial equality, the lazy and indifferent member received as much as the energetic worker; this was not calculated to insure harmony. Finally, the jealousies and envy inherent in human nature flashed out to work their crippling effect on the efficiency of the society.<sup>2</sup> The net result was that the corporations soon began to crumble and dissolve, and the members reverted to their former manner of individualistic economic life. Some of the combinations lasted only one or two months; others endured six or eight; but by the close of 1874 practically all had ceased to function. What property had been contributed to the order was in general returned to the donors, altho in some places — for example Lehi — bitter discontentment resulted from this final division. In less than a year after its installation, all that remained of the United Order in Utah was a memory. None of President Young's successors has displayed any inclination to revive the practice.<sup>3</sup>

One notable exception must be pointed out in this story of failure — the case of Orderville.<sup>4</sup> This little

2. "There have been in some instances indolence, carelessness, and indisposition to work and an inclination manifested to throw the labor upon those who are industrious and energetic. . . . There never was a day since our organization as a people, . . . when there were so many falsehoods in circulation about any principle as there have been about this United Order." George Q. Cannon, *Journal of Discourses*, vol. xvii, pp. 239, 241.

3. An interesting recurrence of the United Order idea has recently come to light in connection with the Re-organized Church of Jesus Christ of Latter-day Saints, with headquarters at Independence, Missouri. This sect was originally composed of Mormons who receded from the church at the time Brigham Young led the main body to Utah and who chose as their leader Joseph Smith, the son of the original founder. The present head of their organization is Frederick M. Smith, a grandson. In an address on April 6, 1920, entitled "The Church in Relation to World Problems," the last-named gentleman advocated a revival of his grandfather's order as a solution for present economic ills. The writer is not informed whether the proposal resulted in any concrete action.

4. Most of the information concerning Orderville was obtained from a manuscript history of the Orderville Ward, the local ecclesiastical unit. The manuscript was prepared in the office of the Church Historian of the Church of Jesus Christ of Latter-day

village is located in Long Valley, Kane County, at the extreme southern end of Utah. In March of 1874 the town of Mt. Carmel, in this valley, was organized into the order. It lasted only a few weeks, when about half of the members decided to withdraw. The remainder, desiring to continue in their course, determined to move away by themselves. Accordingly they founded a settlement in the early spring of the same year about two miles above Mt. Carmel and named it Orderville after the system in which they lived. In this instance the land which they took up was turned directly into the order, as was all their other property. They erected their lumber shacks adjoining each other around a thirty-rod square in the center of which stood the general dining hall, a frame structure measuring twenty-five by forty feet. East of the dwellings lay a plat of fifteen acres — later twenty — for an orchard and vegetable garden. In other directions stretched the common fields for grain and other crops, constituting eventually 300 acres. The colony began with twenty-five families under Bishop Howard O. Spencer, but by July, 1875, it had increased to 150 people and by 1878 to a population of 560. In 1875 a saw mill was set up and operated by the group and in later years a flour mill, tannery, shoe shop, blacksmith shop, wagon shop, cooper shop, and cabinet shop were added. Finally in 1882 the society built a woolen mill, containing 200 spindles, at a cost of \$10,000. In the meantime a herd of cattle and a band of sheep had been acquired.

In general the Orderville concern displayed the same attributes as neighboring orders. It was incorporated July 14, 1875, as the "Orderville United Order." The officers consisted of a president, two vice-presidents, a

Saints, under the direction of Assistant Church Historian Andrew Jensen. To Mr. Jensen and his assistant, Mr. A. William Lund, the writer is greatly indebted for numerous courtesies extended in the preparation of this article.

secretary and treasurer, and nine directors. The last-mentioned board exercised general supervision over the affairs of the order, including the division of labor and the partition of proceeds; but any matter of importance was presented to a meeting of the entire body and the action taken was based upon common consent. Article 12 provides that a member may withdraw what he had previously donated to the company after payment of any indebtedness and after deducting as tithing 10 per cent of the yearly increase in his holdings and 10 per cent of his annual labor for the corporation. Under the terms of Article 13, new members might be added by a two-thirds vote of the existing owners. The articles also included a number of rules of conduct intended to regulate the religious belief and activities of adherents, including a requirement that each member contribute "for church purposes" one-tenth of the annual increase of his holdings and one-tenth of his labor.<sup>5</sup> Further-

5. "17. We will treat our families with due kindness and affection and set before them an example worthy of imitation; in our families and in our intercourse with all persons we will refrain from being contentious or quarrelsome, and we will cease to speak evil of each other and will cultivate a spirit of charity towards all. We consider it our duty to keep from acting selfishly or from covetous motives and will seek the interests of each other and the salvation of all mankind.

20. That which is not committed to our care we will not appropriate to our own use.

21. That which we borrow we will return according to promise, and that which we find we will not appropriate to our own use, but seek to return to its proper owner.

22. We will, as soon as possible, cancel all individual indebtedness contracted prior to our uniting with the Order, and when once fully identified with said Order, will contract no debts contrary to the wishes of the Board of Directors.

23. We will patronize our brethern who are in the Order.

24. In our apparel and deportment we will not pattern after nor encourage foolish and extravagant fashions and cease to import or buy from abroad any article which can be reasonably dispensed with, or which can be produced by combination of home labor. We will foster and encourage the producing and manufacturing of all articles needful for our consumption as fast as our circumstances will permit.

25. We will be simple in our dress and manner of living, using proper economy and prudence in the management of all things entrusted to our care.

26. We will combine our labor for mutual benefit, sustain with our faith, prayers and works those whom we have elected to take the management of the different departments of the Order and be subject to them in their official capacity, refraining from a spirit of fault finding.

27. We will honestly and diligently labor and devote ourselves and all we have to the Order and the building up of the kingdom of God."

more, each applicant was compelled to answer satisfactorily twenty prescribed questions<sup>6</sup> touching his personal conduct and religious professions. A peculiarity of the order with respect to compensation was brought to light in a letter, dated January 17, 1877, from President Young to Bishop Spencer:

6. "1. What is your object in seeking to unite yourself with this company? Do you believe the Lord requires you to take this course?

2. Have you a family? If so, what is the number? Are they with you, without exception, in the course you wish to take? What is your present situation with regard to food and clothing? Do you train your family in the fear of the Lord? Do they seem to practice your teachings and walk according to your example?

3. Are you in debt, or is there any person or persons that claim to have any pretext for claim against you or yours? If so, what is the nature of the pretext or the amount of your indebtedness?

4. Is there any incumbrance on any species of property which you have in your possession?

5. Are you willing for yourself and all you possess to be governed and controlled by the Board of management or any person or persons authorized by them to act?

6. Do you think that you could come and make your permanent home with this company of people and if necessary put up with all the inconveniences that older members had and have without murmuring or fault finding or becoming dissatisfied and wishing to withdraw from the company and thereby putting the company to unnecessary trouble and inconvenience?

7. Are you willing to practice economy in all its points and bearings and try to content yourself although you may think that your trials are hard at times?

8. Do you use tobacco, tea, coffee or indulge in drinking intoxicating drinks?

9. Are you in the habit of stealing or taking that which does not belong to you personally?

10. Are you in the habit of lying or backbiting or slandering your brethren or sisters?

11. Are you in the habit of swearing or using profane oaths or taking the name of the Lord in vain?

12. Are you in the habit of using vulgar or obscene language or indulging in obscene jests or conduct?

13. Are you in the habit of quarreling? If so, will you cease from this?

14. Are you in the habit of giving way to bad temper and abusing dumb animals? If so, will you cease from such conduct?

15. Will you take a course, when you find a brother or sister out of temper, to maintain peace, by saying nothing to aggravate and silently walk away if he or she will not cease?

16. Are you willing to be subject to those who are placed over you and do as you are told cheerfully and not sullenly?

17. Are you willing to work the same as the rest of the company according to your strength and ability and for the same recompense as your peers?

18. Are you willing to conform to the general rule of eating your food in company with the rest of your brethren and sisters?

19. Will you be diligent in trying to conform to the rules of good order in all things and not appropriate to your own use or the use of the Company any tool or implement of husbandry or any kind of produce without first obtaining the permission to do so from the persons having charge of such tools, implements, produce or other property?

20. Will you try to the best of your ability to maintain the peace and prosperity of this Order and as much as lies in your power deal honestly, impartially and justly in all transactions you may be called upon to perform from time to time?"

. . . It would be well to have a rate of compensation for day or job work and give to each one credit for what they do. This rate may be quite low, but when once fixed, all should sign an agreement to abide by it and to accept the rate as compensation in full for all labor performed by them in your organization. This rate may be fixed by common consent, or a committee may be appointed for the purpose of assessing the rate to be allowed for labor.

. . . This will work no hardship whatever to the true and faithful, but will aid as a check to the greed of those who may apostatize from your organization and who may desire to bring trouble upon you.

In fact, however, the actual practice was to strike a balance between the society and the individual at the end of the year; if the member was in arrears to the order, his indebtedness was wiped out, whereas if the order owed the member, he donated the amount of his credit. By this method they sought to preserve equality.

The "Orderville United Order" operated successfully for almost ten years. In 1883, however, certain participants began to express disapprobation of existing conditions. This was materially accentuated by the remarks of Apostle Erastus Snow at a local conference in July of that year, who stated that the concern was little better than the ordinary Mormon coöperative store, that the credit system was defective, and that they had best revert to simple coöperation. Such a blow from so high a source struck at the very foundation of the order, so Bishop Thomas Chamberlain made a special trip to Salt Lake City to consult the church authorities. John Taylor had by this time succeeded Brigham Young as president of the church and neither he nor his associates could offer much encouragement. The net result was that the order was discontinued. By 1885 all the property had been distributed to the stockholders — this time with universal satisfaction — and the Orderville communistic society was no more.

Just as was the case in Missouri, the practice of the United Order in Utah did not result directly from the physical environment or the social make-up of the Mormon people. Admittedly both of these factors may have been influential in determining to some extent the direction and attributes of the Utah variety; but the fact that twenty-seven years elapsed before it was instituted shows that neither of these forces, nor both combined, were the proximate causes of its coming into being. Rather did it eventuate because of the instructions of Brigham Young that such should be the case. Nor can it be denied that in the entire economic life of the Mormon people in Utah, considered as a whole, the United Order played a relatively unimportant rôle.

## V

So reads the story of Mormon communism. It is a record in which they may not justly display any great measure of pride. Twice they attempted the practice of their order and twice they failed. Viewed in the light of their other economic achievements, the lack of success in this field is little less than astonishing. As colonizers the Mormons have never been surpassed in western America; by means of concerted effort in irrigation they subjugated a desert waste and made it a highly productive principality. Nor were their attainments with coöperation less noteworthy, especially at first. Yet when they sought to institute the United Order, they seemed unable to prosper; in fact this was the one conspicuous failure of Brigham Young in economic matters. Where the Shakers endured for 121 years,<sup>7</sup> the Ephrata Community for 175 years,<sup>8</sup>

7. Hinds, p. 32.

8. *Ibid.*, p. 24.



the Harmonists for 102 years,<sup>9</sup> the Separatists for 82 years,<sup>1</sup> and the Amana Inspirationists for at least 65 years,<sup>2</sup> the life of the United Order, except for the single instance of Orderville, must be measured in months. To what reasons may this chronicle of disaster be accredited? What qualities essential to the successful conduct of community affairs were lacking in the order or the people who espoused it?

It can hardly be contended that the binding ties of religion were missing. Hinds maintains "that while no special religious system or special interpretation of the Scriptures is essential to success in Communism, agreement is indispensable, and thus far has most surely come through the religious life."<sup>3</sup> Mormon history demonstrates conclusively that few creeds have bound their adherents so closely and firmly to themselves as has Mormonism.

Nor was the Mormon leadership, through any lack of capacity, the chief cause of failure. Nordhoff emphasizes the importance of proper commune leaders. "The 'leading character,' " he says, "is sure to be a man of force and ability, and he forms the habits, not only of daily life, but even of thought, of those whom he governs."<sup>4</sup> Both Joseph Smith and Brigham Young were men of this type — strong personalities with tremendous influence over their followers. True it is that neither lived with or participated in a particular United Order society. Yet the actual head of the local organization, the bishop, in practically all cases stood in the same relation to his community as did the two presidents to the Mormons as a whole.

9. Hinds, p. 73.

1. Ibid., pp. 101, 119.

2. Ibid., p. 307. These figures are taken as of 1908, the date of issue of Hinds' revised edition of *American Communities*. See *ibid.*, p. 596.

3. Ibid., p. 592. See also, Nordhoff, p. 387.

4. Ibid., p. 396.

Again, the downfall of the Mormon order cannot be blamed to their theory of family life. According to Hinds, "successful Communism is not dependent on any single theory of the sexual relation, monogamic communities having been as prosperous as the celibate ones, and those favoring complex marriage as prosperous as those holding to monogamy."<sup>5</sup> The limited practice of plural marriage among the Mormons surely did not affect their communism adversely to a greater extent than the strict celibacy of the Shakers,<sup>6</sup> the modified celibacy of the Rappists,<sup>7</sup> or the "complex marriage" of the Oneida Perfectionists.<sup>8</sup>

Certain of the Mormon leaders and writers have maintained that the United Order came to grief solely because the people who entered it were not sufficiently unselfish, charitable, and broad-minded to live up to its requirements. No doubt here, as in other communes, the frailties of human nature functioned potently against the successful and efficient operation of the project. Yet other communities endured for decades with a class of members in no wise superior to the Mormons in energy, earnestness, strength of character, sincerity, and moral fibre.

Similarly, blame may not be laid measurably to the form of the United Order itself, whether of the Missouri or the Utah variety. The history of communistic groups in America will bear out the statement that successful societies possessed community machinery as varied in characteristics and attributes as those of the people themselves. Mere form unquestionably has not proved to be the determining factor.

5. Hinds, p. 592.

6. Nordhoff, p. 166.

7. Hinds, p. 91.

8. *Ibid.*, pp. 172, 190-192, 210; Nordhoff, pp. 271, 276, 277.

What, then, was the effective cause of the failure of the order? All or most of the elements just pointed out may have had something to do with the final outcome. But probably the chief reason is found in the fact that the United Order was thrust upon the Mormons, both in Missouri and Utah, without adequate preparation having been made for its reception. The longest enduring of the American communities have started at the very beginning of their group existence with the adoption of such steps as would eventually lead to their desired goal; and by means of a gradual growth and development have finally attained the stage of communism. In Missouri such was not the case, for an abrupt entry was made into the order without previous education to its functions and without any intermediate transitional period. In Utah the method employed was even more aggravated. Instead of extending, slowly and carefully and by degrees, the custom of common effort theretofore used in irrigation and coöperation into other departments of economic life, instead of insisting upon some kind of probationary period such as practically all other communistic groups have found an absolute requisite to their own safety and protection, it was sought at one stroke, extending all over Utah, completely to revolutionize the accustomed manner of dealing with practical affairs. When people have become habituated to one kind of life for almost thirty years, it need hardly be expected that they can effect a fundamental change over night. And such proved to be the actual result.

But orthodox Mormons have not given up their hope in the United Order. No intimation, it is true, has been vouchsafed by the church leaders that the practice might be revived. Yet at those increasingly infrequent occasions when the matter comes to mind at all, it is

with an idea that at some time in the nebulous future the Mormon people will for the third time take up the order. "... the Saints confidently await the day," says Apostle Talmage, "in which they will devote, not merely a tithe of their substance, but all that they have, and all that they are, to the service of their God; a day in which no man will speak of mine and thine, but all things shall be theirs and the Lord's." <sup>9</sup>

HAMILTON GARDNER.

SALT LAKE CITY,  
UTAH.

9. James E. Talmage, *The Articles of Faith*, pp. 451, 452.

## REVIEW

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### JONES' THE TRUST PROBLEM IN THE UNITED STATES<sup>1</sup>

FROM the historical and descriptive standpoint this work may almost be considered the definitive textbook on trusts. There has been nothing else equal to it in comprehensiveness. The author has ransacked government reports, statutes, and judicial proceedings, and has presented a clear and accurate digest. Earlier books which attempted a similar digest of facts had a much narrower basis on which to work. Rightly enough Mr. Jones has generally accepted as authoritative regarding facts the reports of the Bureau of Corporations and the Federal Trade Commission, and the decisions of the Supreme Court. No private investigator can hope to secure data with which to challenge the findings of these bodies.

The book consists chiefly of this historical and descriptive material. The writer first traces the history of different forms of combination in the United States — the pools, the trusts in the narrower sense of the word, the consolidations, holding companies, etc. He then considers the leading and most typical individual combinations, namely, those in oil, sugar, tobacco, steel, shoe machinery, and harvesting machinery, and presents at some length their history, methods, prices, and profits. There follows an extended and very useful history and analysis of common law decisions regarding combinations in restraint of trade, of federal anti-trust legislation, and of court proceedings under such legislation. All the leading cases and statutes are satisfactorily summarized.

Throughout these historical and descriptive chapters, Mr. Jones has, for the most part, avoided injecting his own views

1. *The Trust Problem in the United States*, by Elliot Jones. New York, The Macmillan Co. 1921. Pp. xx, 598.

and theories. For example, such criticisms as are made of specific court decisions consist, generally, of quotations from the dissenting opinions of judges or from comments by the counsel. On the other hand, the author devotes certain definite sections and chapters to discussion of principles, to presentation of general conclusions from the facts adduced in the descriptive sections, and to criticisms of the policy of Congress, administrative officers and the courts. These critical parts of the book, which are much less extensive, are also less valuable than the historical and descriptive parts. In view of the great amount of discussion which has been devoted to the subject by economists and others in the past, Mr. Jones could hardly have been expected to contribute a great deal that is new.

The theoretical discussion of the probable effect of monopoly on prices adds nothing to familiar arguments. It is somewhat naïve to state that "there is general agreement among leading economists that a monopoly price is likely to be higher than a competitive price." From an analysis of the price statistics of leading trusts, especially during the earlier periods of their development, Mr. Jones demonstrates quite effectively that in the absence of active government regulation trusts seek to maintain unfairly high prices, and usually with considerable success over rather long periods. One could wish that he had also been able to present some approximate conclusions as to the effect of trusts on prices under the present conditions of more or less active government intervention. Most of the price statistics which he quotes are a good many years old. During the war, however, business conditions were such that the particular effects of combinations on prices could not, in general, be determined, and the period since the war has been too short and too abnormal to permit of conclusions.

In his summary of anti-trust legislation and court proceedings, however, the author implies that anti-trust legislation has done much to check the rapacity of trusts, and in this he is undoubtedly right. One could desire a more complete discussion of this subject, especially as to the effect of the re-

duction in their percentage of the business which most of the great trusts have undergone upon the degree of their domination in regard to prices in their respective industries. Is the present more moderate policy of trusts concerning prices due primarily to fear of prosecution or government intervention, or is it a result of more effective competition? And if it devolves from the latter cause, is this increased competition itself attributable chiefly to government action, or would it have resulted from purely economic causes? Are there still tacit understandings, such as those brought about more or less openly by the famous Gary dinners of more than a decade ago, by which smaller concerns follow the policy of the leader? Also, how about trade associations even when there is no great trust in an industry — are they, too, effectively holding up prices? These are all very important questions. Definitive answers, however, cannot be reached from present available data and Mr. Jones is perhaps justified in failing to go into these questions.

The author comments with some vigor on the half-hearted attitude of Congress, administrative officials, and the courts toward the suppression of trusts. Some of the trust dissolution proceedings seem to him little more than farcical, tho he avoids the use of strong adjectives. One of the principal explanations of the inability to dissolve trusts effectively, Mr. Jones finds in the failure to prohibit community of stock holdings, even in the case of the separate companies of former trusts dissolved by court decrees. He emphasizes, too, the inadequacy of penalties imposed by courts and juries in criminal cases. At the same time, as already noted, he believes that the Sherman Act has done a good deal to improve the situation. "Doubtless," he says, "the managers of the modern day trusts believe that it pays to cultivate the good will of the public, but is this not, in large measure, because of the fact that the public (through its constituted authority) has readily at hand the tools with which to proceed against these trusts, once its hostility is fully aroused?"

Mr. Jones criticizes the arguments of economy in trust production, on much the same basis as several previous

writers. He holds that most of the economies claimed can be secured by large individual concerns or by combinations of individual concerns without any necessary accompanying power of monopoly, and are not peculiarly characteristic of the monopolistic trust. He has contributed one significant point which, so far as I know, is new, namely, that "to enumerate a list of trust economies and to illustrate each by some one trust leaves the reader with the mistaken impression that each economy may be realized by all trusts. The fact is . . . that the resort to one saving often precludes the employment of another." In other words the arguments in favor of trusts as cost-savers are often inconsistent with one another. The discussion of the advantages claimed for trusts in export trade is illuminating. Mr. Jones is rightly of the opinion that any legitimate advantages of combination in foreign trade can be secured under the Webb Act without any need of trusts capable of exercising control on the domestic market.

The author attempts further to refute the claims of superior efficiency of trusts by listing a number which have failed and been voluntarily dissolved, and mentioning others which have lost that degree of control which they formerly possessed. This argument, however, is hardly fair. Obviously there are some industries which do not lend themselves at all to combination. The failure or partial failure of trusts in certain others may have been quite as much due to individual inefficiency of management or to the mere ups and downs of business as to fundamental weakness in the principle of combination itself. Moreover the argument is in some measure inconsistent with the contention that trusts in general have shown a power to control prices, and likewise with the assertion that government control has done something to curb the trusts.

Mr. Jones' views concerning a desirable policy for the future are difficult to determine. He is disappointed with the comparative lack of success in dissolving trusts, but he is, nevertheless, impressed with the grave difficulties of legalizing them and attempting to regulate their prices. His discussion



of price regulation presents little that is new, and in some respects, is even rather confusing. Thus he discusses, at some length, the difficulties which would confront a price-regulating commission arising from the fact that costs of production of different concerns vary widely. This objection is perfectly valid where the government, as during the war, attempts to restrict prices in an industry, essentially competitive, where no overwhelming combination exists. But if a trust were legalized and allowed to dominate in a given industry, the determination of a fair price would, in practice, usually involve only the investigation of the costs of the trust itself. Inability of smaller concerns to produce at the prices fixed on this basis should cause no qualms of conscience, even if by eliminating the small producer a greater share of the total business would be gained for the trust. For price fixing as a remedy for trust extortion obviously implies virtual legalization of monopoly and thus is in fundamental conflict with the attempt to maintain or build up competition.

Mr. Jones is entirely right, however, in insisting on the enormous complexities of price fixing, and on the danger of reducing efficiency and initiative. He is also correct in asserting that any success of the Interstate Commerce Commission in regulating the railroads furnishes small argument for the success of price regulation for a multiplicity of trust-made commodities. Still he seems to think that a certain reserve power on the part of the government to fix prices in extreme cases might be of benefit to the public. Apart from this remedy, one may infer — tho it is hardly expressly stated — that Mr. Jones would favor more vigorous enforcement of existing laws, together with a prohibition of community of stock ownership, at least in the case of corporations formerly constituting parts of an illegal trust. Whether he would go further and attempt to enforce criminal penalties, or how he would attack the highly informal understandings which are tending to replace the more formal combinations, he does not clearly state.

The present reviewer is of the opinion that no very radical change in the present government policy toward trusts is

practical. Neither Congress nor courts can be expected to pursue a very rigorous policy. In any case administrative efficiency adequate really to enforce competition can scarcely be secured. A certain more vigorous application of existing methods of control and regulation is doubtless both feasible and desirable. It will not do to exaggerate the failure of past efforts to curb trusts. In its earlier years, the Sherman Anti-Trust Act was doubtless more or less a dead letter, but at present the law is fairly effective, at least indirectly. There is every reason to believe that if the government had not intervened, trusts, today, would be far more powerful and rapacious than they are.

In any case the importance of the trust problem must not be overemphasized. One sometimes wonders whether the American people deserve to be protected against the exactions of monopolies. By contrast with Europeans, especially in a Europe impoverished by the war, the extravagance of Americans is little less than appalling. Of course, we are rich and can afford to spend money, but that is no reason for spending it recklessly, or for preferring the less to the more useful object. The automobile is, for most users, a luxury, not a necessity. The moving picture is not an essential of life. Neither automobiles nor moving pictures are monopolized but it is safe to say that the profits of these two industries approach the combined profits of any dozen of the biggest trusts. The sums spent in advertising unnecessary products or in proclaiming the superiority, often non-existent, of one product over others — expenditures which ultimately come out of the pockets of the consumer — are probably greater than the excess of profits of all trusts above a fair rate of return. Unnecessary costs of distribution, due largely to the indolence or ignorance of the American consumer, are a greater factor in the cost of living than the profits of big combinations. Education of the consumer is certainly more important, today, than new efforts to suppress trusts.

On the other hand, there is in America a real problem of inequality of wealth and income. The great masses of the people of the United States are much better off than the cor-

responding classes in almost any other country. To some extent, their comparatively high standard of living may be attributed to the superior efficiency of American business and to its relative freedom from government interference. It is chiefly due, however, to the splendid natural resources of the country and the comparative sparseness of its population. The notion that the present enormous inequality of wealth is necessary to maintain the high standard of living of the masses is not true, and even if it were true, it would be quite impossible to convince the masses of its truth. The disparity in wealth is felt almost, if not quite, as bitterly by the masses in America as by the less prosperous masses of Europe. By peaceful and orderly methods we must undertake to narrow the gulf between the rich and the poor, as a measure of self-protection as well as of justice.

The most effective leveler of wealth we can use is taxation. It is not, of course, the only instrument. Let us go on regulating railroads, trusts and municipal monopolies. Let us maintain competition, if we can. Let us even perhaps extend somewhat the scope of government control of industry. Let us give more attention to securing the rights of the people in the natural resources of the country. We may possibly even wisely widen, more or less, the field of government ownership.

But all these are not enough. The poor man's jealousy hardly stops to consider whether the rich man's wealth came fairly or unfairly. Still less will he consider the legitimacy of its origin in the case of him who did not build up a fortune but merely inherited it. Whatever inherent rights a man may have in the wealth got during his life time, he has no inherent right to control it indefinitely after his death. Nor has a man any God-given right to inherit great riches whereby he may live in luxury without rendering the slightest service to his community. Moreover, it is more than doubtful whether the productive efficiency of a nation is increased by the transmission of fortunes from generation to generation.

The progressive income tax, and still more the progressive inheritance tax, therefore, are essential means toward reducing the inequality of wealth. Even one who questions the

theoretical justice of these methods must, if he carefully considers the situation, admit their practical necessity, to prevent dangerous class conflict. The inheritance tax ought to be ultimately carried so far that no one heir can inherit more than a fixed sum, say for illustration, a maximum of two or three hundred thousand dollars. By due care in the details of legislation and due diligence in enforcement, it would be possible to administer such a measure much more successfully than seems possible in the case of anti-trust and other laws designed to prevent the unfair accumulation of swollen fortunes. An effective inheritance tax like this would do more than any other one measure, and possibly more than all other feasible measures combined, to cure the sense of wrong which now harbors in the breast of almost every working man.

E. DANA DURAND.

## NOTES AND MEMORANDA

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### RECENT BANKING AND CURRENCY LEGISLATION IN INDIA

INDIA has of late years seen vast changes; not only in her government, but in the field of banking and currency, too, far-reaching improvements have been made. The Government of India Act of 1919 is a noble experiment in constitution-making. The Imperial Bank of India and the Paper Currency (Amendment) Act of 1920 are likewise landmarks in the progress of banking and finance in the country. The political event, however, has greatly eclipsed the economic. Away in America, something of the loud din of political controversy probably reaches, hushed and mellowed. Of factors that bring about a silent economic revolution, an attempt will be made here to present a sketch of the two most recent.

The Imperial Bank of India came into being formally on January 27, 1921. It is not a new bank suddenly sprung up in the country. It is merely the three old presidency banks (easily first in magnitude and importance in the whole country) under a new name. Yet the amalgamation, if we would care to plod through papers and trace out the first suggestions which were made in 1836, has taken a long time to become a fact. The advantages were long foreseen, and the tardiness was due not so much possibly to sundry minor obstacles in the way, as to a dead weight of inertia to be overcome. With the amalgamation has come an increase in the capital of the bank. The authorized capital (of which one-half is paid up from the very start) is now just three times the aggregate for the three older institutions. The constitution provides for a Central Board of Governors, with local boards at Calcutta, Bombay and Madras, and at such other

places as expansion of business will in future demand. Members of the local board are elected by the shareholders borne on the local register. It enjoys large powers of autonomy and is an effective instrument for looking after local interests. In the composition of the Central Board, however, government has an important hand. As things stand at present, the proportion of government nominees to other members may be as high as 7:9. The two managing governors are appointed by the government from recommendations by the Central Board, a fact which counts much. In reserving power to issue instructions which will be binding on the bank, the government has scored further points. The government has had to insure its voice in the management. To some extent, its large commitments in the bank necessitated it. But whether the dilution of official control has been too large or too small, time has not yet judged.

Strangely enough, the least amount of change has been effected in the business of the bank. Here is a new bank carrying on its old work almost entirely; one is almost tempted to say, a new bottle with old wine. Briefly, the old presidency banks were precluded from conducting foreign exchange business, from borrowing or receiving deposits payable outside India and from lending for a larger period than six months, or upon mortgage, or upon the security of immovable property, or upon promissory notes bearing less than two independent names, or upon goods unless the goods or the title to them were deposited with the bank as security. These restrictions imposed upon them in 1876 were perhaps justified in 1876. Dealings in foreign exchange, for instance, were a highly speculative affair. The ups and downs of the rupee in terms of the pound sterling defeated all calculations. At present we are having a taste of such whimsical wobblings, when the rupee is practically linked to silver. But this is, let us hope, only a passing phase. Since the introduction of the gold exchange standard (1893) the rupee has behaved well and dealings in foreign exchanges could no longer be the gambling affairs they used to be. Mr. Keynes in 1913 described the constitution of the presidency banks as exceed-

ingly out of date. In 1920 they had grown to be a veritable Procrustian bed for Indian banking to lie on. The Imperial Bank has escaped from the severe limitations in some respects. For the first time, permission has been given to have a London office and for borrowing in England for the purposes of the bank's business upon security of the assets of the bank. But it is not allowed to open cash credits, keep cash accounts or receive deposits in London except from former customers of the presidency banks. Buying, discounting, and selling bills of exchange payable outside India is allowed subject to general and special directions of the Governor-General in Council.

The relation of the government to the bank will appear from the following agreements between them:

1. All the general banking business of the government of India is to be carried out by the Imperial Bank of India.

2. The bank will hold all the treasury balances at headquarters and at its branches. This means a modification of the independent treasury system in India. The usual distribution of the working balances of the government in India may be seen from the following table.

	No. on March 31, 1919	Percentage of cash balances held		March 31, 1919
		Pre-war average	War average	
District treasuries..	272	43	37	28
Presidency bank:—				
Head offices ....	3	9	29	45
Branches .....	42	13	16	13
Reserve treasuries	3	35	18	14
	<hr/> 320	<hr/> 100	<hr/> 100	<hr/> 100

The amounts held in the reserve treasuries, consistently declining for some years past, now disappears altogether. The reserve treasury system is abolished. This is most welcome. The system meant the locking-up of considerable funds past all possibility of assisting the money market. Every rupee that may help, ought to help to lubricate the wheels of commerce and industry; everywhere, and more particularly in India.

3. Within five years the bank undertakes to open one hundred new branches, the government determining the location of one in four. The presidency banks — branches, head offices and all — were only 69 and a jump from 69 to 169 in five years means a financial irrigation of very great promise. India is disgracefully backward in up-to-date banking facilities. The lesson of the bank failures of 1913-14 is that a mere rapid growth of banks that tumble before the first panic, is not by itself a healthy sign. India needs both number and quality. The soundness of the branches of the Imperial Bank may be safely depended upon. As Mr. Howard quotes, "it may not prove itself to be the long-sought talisman to charm the wealth of India from its hoards," but it will bring opportunities to the country districts, such as were never offered before. Meanwhile banking education will do the rest.

4. The management of the public debt will continue to be conducted by the bank for a specified remuneration.

5. The bank may transfer its funds through the government currency department free of charge. In return it is to transfer money between its branches for the public at rates controlled by the government.

These are, in skeleton, the provisions of the Imperial Bank of India Act. It will be noticed that it is not a state bank. To people who dreamed of having in India a bank like the Commonwealth Bank of Australia, state-owned and state-managed, something other than the loaf they asked for has been awarded. A state bank today may or may not be an anachronism. It is not for this paper to discuss whether India should prefer it to a private institution. But there is evidence to prove that a splendid opportunity of banking reconstruction has been only poorly utilized. It is seldom that an occasion for banking legislation arrives and when it does, clearly, all that is possible should be got out of it. The government of India unfortunately forgot to make all the hay when it was sunshine. They have retained all the old restrictions upon the business of the presidency banks almost *in toto*. The aim has obviously been to make the bank as



strong, safe, and secure as possible. One ventures to think, however, that they have proceeded in the wrong direction, that some regulation of its reserves, instead of the regulation of its business, would have served the same ends better. All the world over banking control is being focused on the banking reserve. If the reserve is not sound, no amount of narrowing down of its field of work would save the bank against a run upon it. Perhaps the need for cautious progress is greater in India, where banking habits are yet to grow, than elsewhere. But the constitution of the Imperial Bank of India is overcautious, which is to say, in other words, timid. The fetters upon its operations would, if anything, only operate against its winning the dominant place in the country's banking structure that it is desired to have. Here at least real changes instead of tinkering should have been made.

The Imperial Bank, for all its pompous title and connection with government can hardly be called a central bank *par excellence*. It is certainly India's premier bank, but it is not India's Bank of England. The peculiarity of the banking system in India is that there is not much system in it. The European exchange banks and the Indian joint-stock banks, the two most important classes of banks here, more or less stand by themselves. Whether and to what extent they keep any part of their funds with the Imperial Bank, not even the latest banking Blue Book (which, by the way, serves only two-year-old facts and figures) discloses. There is no closely knit alliance between them and the Imperial Bank, which is more like a big tower among many smaller ones than like the crown and apex of one single structure. In strictness, therefore, it is not a bankers' bank. It is curious that across the Arabian Sea in the same year (1920) legislation, molding anew the South African banking organization, did away with the system of scattered banking reserves there, but nothing was done in India. In this respect, the South African Reserve Bank seems to be ahead of the Imperial Bank of India. Of the other usual characteristics of a central bank, the right of note issue has not, tho early contemplated, yet been actually conceded to the new

bank. As regards management of government finance, indeed, it has been more generously treated. But here, too, much more remains to be done. The remittance business between London and India is a most complex and uncertain one and the expedients that the government has from time to time adopted are both interesting and diverse. The government would have been well-advised to hand over this extremely thankless and intricate duty to a body of experts, such as would be the Imperial Bank, if only to save themselves from a flow of hot criticisms.

Every student of Indian banking recognizes that there is still great room for improvement in it. The different elements, none too alike in character, have got to be coördinated and a logical line of regulation, through control of reserves, adopted. It is painful to note a percentage of cash balances to total deposits so small as 2 per cent (Canara Bank, Mangalore, 1920), but such a ratio is not a rarity among the smaller Indian joint-stock banks. A law requiring more frequent publication of their balance sheets than the convenient method of doing so once a year, that most of them adopt, could meet the situation to a great extent. Sooner or later fresh banking legislation is bound to come.

We will not take much space to deal with the Indian Paper Currency (Amendment) Act of 1920. Briefly speaking, the note-issue system of India, like many another importation from that country, was formerly just a copying of the system in England, with the modification that the issuing agency here was the state instead of a bank. The new act has, principally, changed the method of holding the reserve from what Professor Kinley terms the partial deposit method to the proportionate deposit method. The provisions of the act state first that at least 50 per cent of the notes in circulation should be backed by metal. The old system of having a definite uncovered or fiduciary part and making the rest of the issue merely gold and silver certificates is changed and, all perhaps would agree, it is a change for the better.

Secondly, the constitution and the locale of the reserve have been put on a permanent footing. The metallic reserve

may be held partly in India and partly in London. But the gold reserve held in London may not exceed rs. 5 crores in value (rs. 50,000,000). This is decidedly an improvement on the former plan of issuing notes in India and placing the reserve to an extent dictated by the whims of the existing government in England. A reserve is like a constabulary, says Professor Taussig. Its efficiency depends less on its size than on its readiness to respond to need. In the case of India, of course, a reserve held in London, six thousand miles away, is not so remote as it appears at first sight, since the arrangement of holding many different funds partly in England and partly in India and the system of frequent easy transfers and adjustments between them, cause really a reduction of the distance. Still a plea for holding the whole of the reserve in India stands on its own merit, as one worth putting forward. The act lays down that the security reserve, too, may, subject to certain specifications as to the nature of the securities, be shared between the Secretary of State and the government of India.

Thirdly, the act gives power to the Governor-General in Council "to issue currency notes up to rs. 5 crores in value against bills of exchange maturing within 90 days from their date of issue and under such conditions as the Governor-General in Council may, under general or special orders prescribe." This is to be more in the nature of an experiment than a set programme. But one hopes, in view of the element of elasticity and responsiveness to trade conditions that it introduces that the experiment will prove a success.

Of these salient features of the new act that which will call forth immediate criticism from the American mind, used to bond deposits and a further cash fund of 5 per cent of the circulating notes, is perhaps the provision of a 50 per cent reserve. In India, too, there were strong currents of opinion against such a high rate, and it was considered that the 40 per cent reserve recommended by the Babington Smith Currency Committee was both safe and economical. But here, as elsewhere, the comparative infancy of monetary growth in India, weighed considerably with the government

and they have chosen to err on the side of overcautiousness than indulge in too much forwardness. The safety of the notes now is beyond all question. Elasticity and economy, two other virtues of a sound paper currency system, are also present.

I shall end by putting in an abstract of the accounts, showing the constitution of the paper currency reserve on April 7, the figures being the latest available.

Total circulation of notes .....	rs. 1,746,950,167
Reserves: —	
Gold and silver (coin and bullion) in India ....	rs. 1,017,684,327
Gold and silver held in England and elsewhere ..	rs. Nil
Securities (purchase price) held in India .....	rs. 650,793,571
Securities held in England .....	rs. 58,472,269
Internal bills of exchange held .....	rs. 20,000,000
<hr/>	
Rs. 1,746,950,167	

The percentage of metallic reserve to circulation is 58.25.

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INDEX NUMBERS OF FOREIGN EXCHANGE:  
A REPLY

In the May, 1922 issue of this Journal, there appeared an article on "Index Numbers of Foreign Exchange" by J. S. Davis, in which he discusses the general usefulness and validity of the foreign exchange indexes recently developed in several countries.

In his opening paragraph Mr. Davis observes with regret the tendency of statisticians to elaborate technical devices without sufficient consideration of the quality of their data and without adequate interpretation. The foreign exchange index, he thinks, is a pertinent instance of this tendency. It is not sufficiently explained; it adds nothing to our knowledge; it is theoretically unsound and misleading rather than helpful. In making this severe arraignment the writer brushes aside all questions of methodological detail on the unimpeachable ground that if the index is valueless, details of method are not worth discussing.

In support of his contention that the foreign exchange index is valueless Mr. Davis presents arguments which lose much of their force because they could be adduced with as much justification against any other average or index, such as the production index, the ocean freight rate index, and the wholesale price index — which is the pioneer and the best known index of all.

An average is never a safe basis for action by an individual business man. When a cotton mill owner wishes to study prices he is interested in the price of cotton and not in the index number of wholesale prices. Nevertheless, he finds it useful to study the movement of the price of his own commodity compared with the general trend of prices. This study enables him to make forecasts as to the probable permanency of the movement with which he is concerned and to deter-

mine whether the reasons for the changes in his own commodity are to be sought in general conditions applying to all industries or in peculiar circumstances affecting his particular commodity. The same reasoning applies to the foreign exchange index. If the exchange value of the pound sterling is moving in the opposite direction from the general trend of exchange values, this is an indication that the reasons for this movement are essentially British rather than world-wide reasons. The average is merely a concession to the limitations of the human mind which is not able to grasp at one time more than three or four concepts. By giving an average the statistician provides for the users of his product a yardstick by which he can measure the movement that is of greatest concern to him. These arguments, which justify the index from the point of view of the business man, apply with even greater weight to the economist who is concerned with more general developments.

Mr. Davis states that the phrase "the collective value of our currencies abroad" implies a lack of appreciation of the fact that purchasing power over commodities is dependent not only on exchange value of currencies but also on price developments. This implication of ignorance on the part of the compilers of the index is hardly justified in view of the fact that in a sentence which Mr. Davis himself quotes the Federal Reserve Board states that "*studied in conjunction with the index numbers for wholesale prices of commodities* the index of foreign exchange rates affords comparison of the changes which occur both in the internal and external value of a country's currency and gives a perspective of its purchasing power both at home and abroad." That this is fully realized by the Board is witnessed by the fact that on many occasions the Bulletin has discussed purchasing power in the different countries as a function of exchange rates and domestic prices. In fact, in the international price index which the Bulletin currently publishes, prices in foreign countries are compared with those in the United States, first in terms of local currency and secondly in terms of gold, i. e., after allowance for the depreciation of the currencies has been made.

The foreign exchange index of the Federal Reserve Board has been defined in the following words: "The index shows how many dollars would be required each month to purchase in the New York market a representative assortment of foreign exchange bills which at par would have cost \$100."<sup>1</sup> This definition has a distinct bearing on Mr. Davis' further criticism that, in view of the different conditions prevailing in the various countries, each currency is a unique phenomenon, that currencies are not homogeneous and are, therefore, not susceptible of combination in averages. This opinion leads Mr. Davis to humorous zoölogical and other comparisons. The definition, however, makes it clear that the quantity with which the foreign exchange index deals is the value of foreign exchange bills in terms of the currency of the country where these bills are offered for sale. The value of an exchange bill is the resultant of all the influences, domestic and foreign, that affect a currency and reduce all currencies to a common denominator. The qualitative differences between various currencies which make up the exchange index are certainly no greater than the differences between the items that enter into the composition of the wholesale price index, and yet the wholesale price index is a well established device whose usefulness, as well as whose limitations, are thoroly understood.

Mr. Davis concedes that there is the "nearest approach to justification for the American index," but proceeds to say that even this index "seems to defy interpretation, because quantities essentially unhomogeneous are combined into a weighted average." We have just stated our belief that Mr. Davis is in error in his opinion that the quantities involved are too diverse to be combined. A further word needs to be said about interpretation. It has been the judgment of the Federal Reserve Board that the more important item in foreign exchange developments is the movement in the value of the currencies of individual countries. The publication of rates for each country is not a by-product of the computation of the index, as Mr. Davis thinks. The Reserve Board has pub-

1. Eighth Annual Report of the Federal Reserve Board, 1921, page 84.

lished foreign exchange rates quarterly by months for several years, but it began to publish monthly averages every month only since June, 1921, when under the terms of the Emergency Tariff Act the New York Reserve Bank began to certify foreign exchange rates daily to the Treasury. The Board felt that so long as the exchange rates were supplied by private sources, it was best not to publish them in too much detail in an official publication, but as soon as a reserve bank started to furnish them to the Treasury the Board began to publish the rates monthly and to compute monthly averages in addition to the high and low rates published before. The general index is not featured. It is not even included in the table, but in a headnote.

The text, which appears each month in connection with the foreign exchange rates and which does not supply Mr. Davis' wants, is deliberately limited to a brief statement of developments for individual countries, accompanied by an explanation of changes in the general index which might be puzzling unless it were explained that they are caused by shifts in foreign trade. The Board feels that the chief service it must perform in this connection is making the figures available to the public in convenient form, and that elaborate explanations of these figures are not required.

Mr. Davis grants that the publication of monthly averages is valuable and states that a chart showing monthly developments for the different currencies would be instructive. Such a chart is, in fact, published every month with curves for the leading currencies and a curve showing the movement of the general index. The only difference between the procedure suggested by Mr. Davis and that followed by the Board is that the Board's chart is on the arithmetic rather than on the logarithmic scale. The decision in favor of an arithmetic chart was reached after thoro investigation and discussion. It was felt that to present each month a logarithmic chart, which distorts the relationship of each currency to parity and of the different currencies to each other, would create a wrong picture of the situation in the reader's mind. It is fully realized that month-to-month fluctuations are better re-



flected in a logarithmic chart, especially in the case of countries, like Germany, whose currencies have suffered an extremely heavy depreciation. In a special article on the subject it would be advisable to use both types of chart, but a chart which would visually inform the non-statistical reader that the franc was only 40 per cent depreciated when as a matter of fact it is 60 per cent depreciated, and that the German mark is only twice as much depreciated as the franc, when as a matter of fact it is ten or more times as much depreciated, would be misleading. Since charts are intended to appeal directly to the eye without reference to explanations and since the Bulletin is published primarily for the use of bankers and not of statisticians, it was felt that it would be wiser to use the simpler, more understandable and, on the while, less misleading arithmetic chart.

Thus Mr. Davis' criticism, in so far as it is not based on misunderstanding, is such as would apply to almost any index number or average. Had he not summarily brushed aside the many problems of technique confronting the compiler of the foreign exchange index, which is admittedly still in the experimental stage, Mr. Davis' criticism might have been helpful. Fundamental revision of the index has been found necessary, as a matter of fact, and the index published in the October, 1922 Federal Reserve Bulletin differs from the old index in composition, type of average and method of weighting.

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FEDERAL RESERVE BOARD.

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